

**Attachment XI**

**~~[4. Auditing~~**

**~~Update 15~~**

**~~A MODULE OF THE~~**

**~~TEXAS EDUCATION AGENCY  
FINANCIAL ACCOUNTABILITY SYSTEM  
RESOURCE GUIDE~~**

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# 4. Auditing

## 4.1 Introduction

The primary intent of this module is to establish auditing requirements for Texas public school districts. The *Resource Guide* is the authoritative document adopted by reference and state board of education rules, through [Title 19, Texas Administrative Code, Section 109.41](#). Legal authorization for school district audits is found in the Texas Education Code, [Section 44.008](#), in the Office of Management and Budget (OMB) [Circular A-133](#), June, 1997 and revised June 2003, and the annual OMB Circular A-133 [Compliance Supplement](#), which establish federal regulations that implement the Single Audit Act Amendments of 1996, Chapter 75, United States Code, Title 31.

Another intent of this section is to provide auditing guidance that complements the American Institute of Certified Public Accountants (AICPA), *Audit and Accounting Guide, State and Local Governments* and supplements the [Government Auditing Standards](#), United States Government Accountability Office (GAO). These rules facilitate preparation of financial statements that conform to generally accepted accounting principles (GAAP) established by the Governmental Accounting Standards Board (GASB). The school district auditor should have an understanding of these publications.

The implementation of GASB Statement 34 had a significant impact upon the audit process. As a condition of an independent auditor's acceptance of an audit engagement for fiscal years beginning on or after September 1, 2001, the independent auditor must provide copies to school district officials (preferably the superintendent or his designee, such as the chief business official) of all adjusting entries, closing entries and adjustments to closing entries that were made by the independent auditor. The independent auditor must provide this information to the district in both written (hard copy) and electronic form, including a formatted spreadsheet file(s). The adjusting entries are to be provided to the district no later than 60 calendar days after presentation of the annual financial report to the board of trustees of the school district. The district must carefully file and maintain all information prepared by the school district and the district's independent auditor on a permanent basis to support and explain amounts reported in the financial statements prepared in accordance with GASB Statement 34. This is an essential responsibility involving the independent auditor and school district staff in order to assure the orderly and efficient preparation of financial statements for fiscal years following implementation of GASB Statement 34. See the FAR Module, Section 1.7, of the Financial Accountability System Resource Guide for more information.

Beginning with the 2011-2012 fiscal year, TEA requires all school districts and charter schools to submit their annual financial and compliance report in electronic format only. The following are to be submitted electronically:

1. a pdf version of the annual financial report prepared by the independent auditor;
2. the completed Certificate of Board; and
3. the GASB Audit Data Feed where applicable.

Under [TEC 44.008](#)(d), the annual financial audit is due not later than the 150<sup>th</sup> day after the end of the fiscal year:

November 27 for June 30 fiscal year

January 28 for August 31 fiscal year

For additional information on related filing requirements, refer to Section 7.3.6 in the Data Collection and Reporting Module.

### 4.1.1 Types of Audits

Three general types of audits may be conducted for governmental entities (including school districts): *financial audits*, *attestation engagements* and *performance audits*. The primary differences between the three types are the objectives of the audit.

- *Financial audits* include financial statement audits and financial related audits. Financial audits are designed to provide reasonable assurance about whether the financial statements of the audited entity present fairly the:

- Financial position

- Results of operations

- Cash flows

of the entity in conformity with generally accepted accounting principles or another stated basis of accounting. Financial related audits include determining whether the:

- Financial information is presented in accordance with established or stated criteria

- School district has adhered to specific financial compliance requirements

- School district's internal control over financial reporting and safeguarding assets is suitably designed and implemented to achieve the control objective

A common type of financial related audit applicable to school districts is a *single audit*.

- *Attestation engagements* fall into 3 categories:

*Examinations* consist of obtaining sufficient, appropriate evidence to express an opinion on whether the subject matter is based on the criteria in all material respects.

*Reviews* consist of testing to determine whether any information came to the auditor's attention that indicates the subject matter is not based on the criteria.

*Agreed-upon procedures* consist of specific procedures performed on a subject matter.

- *Performance audits* are objective and systematic examinations of evidence that provide an independent assessment of the performance of a government organization, program, activity or function. *Performance audits* provide information to improve the

organization's public accountability and facilitate decision making that initiates corrective action. Performance audits assess the performance of an entity, a program or an activity within that entity. Two common types of performance audits are *economy and efficiency* audits and *program effectiveness* audits.

— *Economy and efficiency audits* determine whether an audited entity is operating economically and efficiently, identifying causes of wasteful and inefficient practices, and ascertaining whether the entity has complied with laws and regulations in matters of economy and efficiency.

— *Program effectiveness audits* determine whether a program is meeting the objectives for which it was developed, and whether the entity has complied with significant laws and regulations related to the program.

## 4.1.2 Who Can Perform an Audit?

Audits are performed by various types of auditors depending on the situation. Audits may be conducted by a certified public accountant (CPA), internal auditor and/or state auditor. Audits and reviews performed periodically by the TEA Division of School Financial Audits do not satisfy the requirements of the Single Audit Act Amendments of 1996. They do, however, build upon work already performed and include:

- Operational, compliance, and financial audits of systems and records supporting funding applications
- Special and criminal investigations
- Compliance and financial audits of subgrantees not complying with the Single Audit Act Amendments of 1996
- Management and service audits of education service centers

[TEC 44.008\(a\)](#) requires a financial audit to be performed annually by a certified public accountant holding a firm license from the Texas State Board of Public Accountancy.

This module concentrates on financial and financial related (i.e., *single audit*) audits, providing guidance to assist external auditors engaged by school districts to satisfy federal and state audit requirements. It is organized as follows:

- ~~State and federal requirements relating to Texas school districts~~
- ~~Engagement of external auditors~~
- ~~Audit preparations~~
- ~~Differences between *generally accepted auditing standards* (GAAS) and *generally accepted government auditing standards* (GAGAS: source [Government Auditing Standards](#) (GAS) or Yellow Book)~~
- ~~Financial statement audits~~
- ~~Single audits~~
- ~~Accounting, reporting and disclosure issues with audit implications~~
- ~~State Compensatory Education audit~~
- ~~Student dropout and leaver audit~~
- ~~Attendance accounting system audits~~
- ~~Peer review~~

## 4.2 State and Federal Requirements Relating to Texas School Districts

The following rules generally apply to all Texas independent school districts:

- [Government Auditing Standards](#) (commonly referred to as the Yellow Book) published by the United States Government Accountability Office represent generally accepted government auditing standards (GAGAS) *required* for all school district audits.
- A financial audit is *required annually* for each school district, and is to be made on an organization wide basis, including all fund types and account groups that are the accounting responsibility of the school district.
- Certain audit procedures must be performed on fiscal data reported through the [Public Education Information Management System \(PEIMS\)](#).
- Audit costs are paid from local school district funds.
- The audit shall be a *financial* audit, (as distinguished from a performance audit) as defined in the Yellow Book and in the introduction section of this module. The financial statement audit is performed to determine (a) whether the financial statements present fairly the financial position, results of operations, and cash flows or changes in financial positions of the school district in accordance with generally accepted accounting principles, and (b) whether the school district has complied with laws and regulations for those transactions and events that may have a material effect on the financial statements. *A single audit must be performed* in all instances when a school district expends \$500,000 or more from federal awards.
- The *scope* of the audit is to be sufficient to document and support the minimum audit reporting requirements published in the Financial Accounting and Reporting module of the *Resource Guide*.
- If the auditor's compliance report and/or the auditor's report on internal controls *disclose areas of noncompliance* with laws, rules, or regulations and questioned amounts, or material weaknesses, the *school district must file comments* on any such findings and recommendations with the TEA Division of Financial Audits. This filing should include a plan for corrective action (taken or planned) and comments on the status of corrective action taken on prior findings, or reasons that corrective action is

not necessary. This information may be either included in the required annual audit report or in a separate letter that accompanies the required annual audit report.

- Prior to the *audit engagement*, the school district's board of trustees must require all auditors or audit organizations proposing to perform the required annual financial audit to provide a written proposal or an engagement letter. A sample request for qualifications is included in [Appendix 1](#) and a sample engagement letter is included in [Appendix 2](#).
- Additionally, an agreed-upon procedures report may be required of some school districts and charter schools for the purpose of reporting on compliance regarding State Compensatory Education. This report is paid for by the school district. This report is due at TEA within 150 days after notification by TEA of the requirement. Additional information about this special report is found in Module 9 of the Financial Accountability System Resource Guide, State Compensatory Education.

## 4.2.1 Optional Auditing Provisions

A school district's board of trustees, at their option, may require audit work that *exceeds* the minimum auditing requirements described for the annual financial and compliance audit. If such additional work is necessary or desired, separate auditor's reports, statements, notes and schedules may be made part of the required annual financial report, or they may be reported separately. Unless the commissioner of education (or designee) issues a special directive requiring them, optional auditor's reports are not sent to TEA.

If optional auditing work is conducted, the auditor should follow [Government Auditing Standards](#) for financial related audits or performance audits, as applicable. State board of education rules for financial audits are not required for *performance* audits as defined in the *Government Auditing Standards*.

## 4.2.2 Texas Education Agency Audit Review Responsibilities

The required *annual financial and compliance report* of a school district must be reviewed by the Division of Financial Audits of TEA. Audit reports submitted to TEA by school

districts are public records, and resulting information is used for various legal purposes in the administration of the public schools and their programs.

The commissioner of education, or designee, will notify the school's board of trustees of auditor's findings that disclose objections, violations of sound accounting practices or law and regulations requirements, and of recommendations concerning those findings.

If the audit report reflects that laws have been violated or if TEA is otherwise notified of irregularities, the commissioner of education or designee will report that information to the appropriate county or district attorney and to the Texas attorney general. If federal program funds are involved, the appropriate federal agency and the Federal Bureau of Investigation will be notified.

The commissioner of education, or designee, must have access to all vouchers, receipts, district fiscal and financial records. Other school records, including those records held by the depository bank and working papers of the auditor as the commissioner may deem needed and appropriate for the review and analysis of audit reports must be made available.

Whenever a school district's annual financial and compliance report has significant inadequacies, the school district will be advised by the Division of Financial Audits of TEA to take corrective action. If corrective action is not taken, the commissioner of education, or designee, will notify the board and superintendent of the facts and of the commissioner's recommendations.

If the independent auditor fails to or refuses to furnish audit working papers to appropriate state or federal auditing authorities, or if the auditor's efforts show major inadequacies or substandard performance, the independent auditor will be referred by the commissioner of education, or designee, to the Texas State Board of Public Accountancy.

### **4.2.3 Release of Audit Information by the Texas Education Agency**

Information appearing in audit reports filed with TEA is public information and may be released when appropriately requested during regular business hours, provided the following conditions are met:

- The required annual financial and compliance report has been reviewed and approved/disapproved by the school district's board of trustees

- An official audit report prepared by the staff of TEA has been submitted to the audit recipient, and has not been ruled as confidential by the Texas attorney general
- The requester adheres to all legal provisions, including payment of required fees (if any)
- Independent auditor's working papers and resulting quality reviews are exempt from public review, notwithstanding requirements for review by appropriate governmental agencies, or legal proceedings ordering the release of auditor's working paper information

#### **4.2.4 Programs Supported by State or Federal Funds**

School districts may at times operate programs which are supported in part or in whole by state and/or federal funds. The financial operations of these programs are subject to audit in at least the same detail as other financial operations within the school district. Before a school district establishes an information management and a record retention policy, the school district should be certain that the proposed system will assure that all records, in sufficient detail, will be available to satisfy all state and/or federal requirements. Refer to the Data Collection and Reporting module of the *Resource Guide* for further discussion of information management and record retention requirements.

#### **4.2.5 Working Papers**

Federal law requires the retention of audit work papers for three years. U.S. Department of Education (federal) regulations require retention of supporting documentation for federal programs for at least five years. In certain instances, the auditor's work papers provide additional clarification or support to federal and state grants. Thus, TEA suggests that all school districts require their auditors to retain their audit work papers for at least five years. This requirement should be included in the engagement letter. Although the working papers are subject to review by auditors from TEA, the Government Accountability Office (GAO), or other applicable governmental agencies, they are not otherwise considered to be records open to the general public.

The Texas State Library requires a 7 year retention period for most financial records of school districts. See retention [schedules GR and SD](#) at their website.

## ~~4.2.6 Audit Procedures on PEIMS Fiscal Data~~

~~The 74th Legislature enacted an additional fiscal audit requirement relating to the accuracy of fiscal data reported through the [Public Education Information Management System \(PEIMS\)](#). [Texas Education Code §44.008\(b\)](#) states that audit procedures are to be documented in the audit working papers, and a separate report will not be required. Audit procedures are to be applied to fiscal data to be reported for the fiscal year end of the audit, beginning with the audit for the fiscal year ended August 31, 1995. Audit procedures are to be adequate to detect material errors in a school district's data to be reported through PEIMS for the fiscal year under audit. Audit procedures may be applied to the prior fiscal year's data in connection with planning activities of the audit engagement.~~

Example PEIMS audit procedures applied on a test basis include:

- ~~• Analytical procedures of PEIMS data expected to be reported in 032 record~~
- ~~• Analytical procedures of PEIMS data expected to be reported in 032 record for the year of audit and data that was reported in the prior year~~
- ~~• Analytical procedures of summary detail district wide for fund, function, object, organization, or program intent; such as negative expenditure amounts~~
- ~~• Administrative controls over database administration, such as posting of annual audit adjustments to general ledger detail~~
- ~~• During audit field work, review the process used by the school district to generate PEIMS summarized fiscal data and review data for material errors in control totals, so that it may be submitted intact to the regional education service center for PEIMS submission~~

## ~~4.2.7 State Single Audit (UGMS)~~

The Uniform Grant Management Standards (UGMS) were established to provide a standardized set of financial management procedures for grantor agencies in Texas. State agencies are required to adhere to these standards when administering grants and other financial assistance agreements with cities, counties and other political subdivisions of the state.

[Chapter 783](#) of the Government Code excludes school districts; however, to further consistency and accountability, some state agencies have applied these standards by rule or contract to all their subrecipients.

If a school district receives state grants directly or federal block grants from a state agency other than TEA, the auditor must check the grant requirements of that agency, since some require a state single audit for that specific grant, i.e., the school district may agree voluntarily to a state single audit as a condition of receiving the grant.

The Uniform Grant Management Standards are found on the governor's office website at <http://www.governor.state.tx.us/files/state-grants/UGMS062004.doc>.

## 4.3 Engagement of External Auditors

School districts should appoint an external auditor as far in advance as possible of the close of the school year to be audited. The process should consist of re-engaging the prior year auditor or seeking new auditors through the request for proposal process. Before entering into an agreement with the school district, the auditor may request to survey the fiscal records and/or have discussions with management to identify issues or problem areas which may affect the performance of the audit. An understanding should be reached regarding the scope of the audit (which must meet the requirements included in the *Resource Guide*, applicable professional standards and the requirements of the local board of trustees). After an agreement is reached, the auditor should be granted as much latitude as necessary to assure that records are in order, that the accounting system meets the requirements of the state board of education, and that proper fiscal controls are in use by the school district.

### 4.3.1 Requests for Qualifications

A request for a proposal from independent audit firms can enhance the effectiveness of the audit procurement process; however, such a request is not required by either state or federal law. A request for qualifications, if used, would only be appropriate when an auditor change is being contemplated and would not be appropriate annually. Expenses for administering and preparing the request for qualifications can be substantial. For these and other reasons, small school districts and districts in remote areas may never use a formal request for qualifications.

As illustrated in the sample request for qualifications at [Appendix 1](#), a request for qualifications specifies the terms, conditions, evaluation criteria and scope of the work required. It also requests information from interested accounting firms concerning estimated fees, qualifications of the audit staff and proposed approaches to conducting the audit. The exact content of a particular school district's request for qualifications may vary according to local needs and conditions; however, the general content should be similar to the sample request for qualifications.

Whenever a request for qualifications is used as part of evaluating and engaging auditors, the proposal generally should be included as an attachment to and be referenced in the engagement letter. The proposal and the engagement letter should be referenced in the school district's board minutes regarding auditor selection. These documents should also be a component of the auditor's working paper file.

The Government Finance Officers Association has issued a *Model Audit RFP CD* which identifies and discusses issues to be considered when soliciting audit proposals.

### 4.3.1.1 Factors Influencing Audit Costs

There are many factors which could influence the costs of a school district's external audit. A partial listing of relevant factors follows.

- The experience and professional qualifications of the auditor could be a major factor in the cost of an external audit. The service to be rendered is professional in nature and should therefore reflect professional competency and knowledge of public school auditing. The school district should expect to pay accordingly.
- The timing of the contractual agreement affects audit costs. Delaying appointment of external auditors until after the close of the school year to be audited might increase audit cost.
- Closing the books and preparing the financial statements on a timely basis should reduce audit costs. If the school district closes its records and prepares the required schedules and financial statements, the auditor will not have to duplicate such information. Under these circumstances the auditor's opinion may be predicated upon the quality of the school district's records, prepared schedules and financial statements which are audited. If, on the other hand, the school district has not prepared the required schedules and financial statements, etc., the task is left to the auditor. The auditor's report then represents the only complete report of the financial transactions and the auditor's opinion will be based upon the financial statements so prepared. If the latter is required of the auditor, provision should be made to include in the scope these additional tasks and in the contract, the resulting added expense.
- Audit costs may be reduced when a school district's internal auditors provide direct assistance to the independent auditors.
- The extent to which the auditor is able to rely upon the accounting system and the school district's system of internal control directly affects audit costs. The auditors' ability to rely on the system of internal controls is directly related to their effectiveness and whether they have been placed in operation.

### 4.3.1.2 Auditor Qualifications

~~Several factors besides price should be considered when selecting an external auditor. The experience of the interested accounting firm, the availability of interested accounting firm staff with appropriate qualifications and the results of the interested accounting firm's external peer reviews are just a few.~~

### **4.3.1.3 Engagement Letter**

~~An engagement letter is an annual written agreement that is binding upon both the school district and public accounting firm. It is intended to set forth the terms for the current year's audit. The engagement letter should be an integral part of the auditor's working paper file and be attached to or referred to in the school district's board minutes concerning auditor selection. Engagement letters are discussed in more detail in the Financial Audit section of this module.~~

## 4.4 Preparing for the Audit

The audit is a methodical examination of financial records which concludes with a public report of the findings. The purpose of a financial audit is to determine whether the *financial statements* are free of material misstatements. The audit generally includes an examination of *evidence* supporting the amounts and disclosures in the financial statements prepared by the school district. The audit also includes assessing the *accounting principles* used and *significant estimates* made by management.

As part of the audit, the auditor considers *internal control*. The auditor is required to obtain an understanding of internal control by performing procedures to understand the design controls relevant to an audit of financial statements and to federal financial assistance, and to assess whether the controls are operational.

To be able to conduct a successful audit, the auditor must have access to various financial and in some instances non financial records and documents maintained by the school district.

Preparation for the annual audit by a school district should begin with the preparation and adoption of the budget and continue throughout the year. A listing of suggested schedules and documents that should be prepared, collected and provided to auditors that may enhance the performance of the annual audit includes:

- Copies of the budget and amendments as adopted
- Copies of the minutes of each board meeting and monthly financial statements
- Copies of an organizational chart showing lines of responsibility
- Copies of the school district's flow chart documents
- Copies of bank reconciliations for each bank account
- List of all depositories and their addresses, including bank account numbers and account names
- List of all investment transactions by fund for the year

- ~~List of outstanding encumbrances which were closed out and included in the succeeding budget~~
- ~~Schedule of insurance in effect which should include names of companies, type of coverage, inclusive dates of the policies, and total cost per policy~~
- ~~Reconciliation of payrolls and related accounts such as payroll taxes and retirement deductions~~
- ~~Copies of new bond issues and details of bond sales consummated~~
- ~~Copies of teacher contracts and leave schedules if appropriate~~
- ~~Copies of lease agreements~~
- ~~Copies of trial balances and, if possible, the financial statements, footnote disclosures and combining schedules~~
- ~~Copies of the prior year audit report and other audit reports prepared by the internal auditors or other government auditors/agencies~~

~~In addition to the listed items, the school district should make available to the auditor schedules prepared to support the financial statements or notes to the financial statement amounts. School districts should supply other information that may be requested by the auditor. Early agreement on the scope and nature of the information requested is recommended.~~

## 4.5 Comparison of Generally Accepted Auditing Standards and Generally Accepted Government Auditing Standards

Auditing standards provide measures of quality that can be used to judge the effectiveness of the tests and procedures used to meet the audit objectives. Standards for traditional financial audits are known as generally accepted auditing standards (GAAS) and are promulgated by the AICPA through the Auditing Standards Board. Supplemental standards for financial audits of governments, as well as standards for public sector performance auditing, have been established by the U.S. Government Accountability Office (GAO) in its publication [Government Auditing Standards](#) (revised July 2007), commonly referred to as the Yellow Book. These standards form generally accepted government auditing standards (GAGAS).

While GAAS and GAGAS are fundamentally similar, GAGAS goes beyond GAAS in setting additional standards for public sector audits. Auditors *must* follow GAAS when conducting a *financial audit*. When an auditor is to perform a financial audit *in accordance with GAGAS*, the engagement letter and the request for qualifications should specify this requirement. Notice, too, that when auditors are engaged to perform a *single audit* (in accordance with the Single Audit Act Amendments of 1996), they must perform the audit *in accordance with GAGAS in addition to GAAS*. The following discussion outlines GAAS and highlights the additional requirements of GAGAS.

If audit guidance provided by a governmental agency for the performance of compliance audits has not been updated or otherwise conflicts with current GAAS or GAS, the auditor should comply with the most current applicable GAAS and GAS instead of outdated or conflicting guidance, (AU 801.17.22)

### 4.5.1 General Standards

The AICPA sets three general standards for audits that are to be performed in accordance with GAAS:

- The audit must be performed by a person or persons having adequate technical training and proficiency as an auditor.
- In all matters relating to the assignment, an independence in mental attitude is to be maintained by the auditor or auditors

- Due professional care must be exercised in the performance of the audit and the preparation of the report

GAGAS provides a separate set of general standards that apply to *single audit* and other Yellow Book engagements. Those standards emphasize the independence of the audit organization and its individual auditors; the exercise of professional judgment in the performance of work and the preparation of related reports; the competence of audit staff; audit quality control and assurance; and external peer reviews. The primary differences from GAAS involve the standards concerning qualifications and quality control.

#### 4.5.1.1 GAGAS Qualifications

The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required. Unlike GAAS, GAGAS requires auditors to participate in specific types of continuing education and training to maintain their professional proficiency.

- *General Staff Qualifications* - The qualification standard places responsibility on the audit organization to ensure that the audit is conducted by staff who collectively possess the technical knowledge, skills, and experience necessary to be competent for the audit to be conducted. Staff conducting the audit shall collectively possess a thorough knowledge of the public sector and Texas public school district environment and of auditing requirements applicable to governments. The qualifications mentioned here apply to the knowledge and skills of the audit organization as a whole and not necessarily to each individual auditor.
- *Continuing Education* - To comply with the qualification standard, the audit organization should have a program to ensure that its staff maintains professional proficiency through continuing education and training. Auditors must complete at least 80 hours of continuing education and training every two years. All 80 hours of this training must contribute to the auditor's professional proficiency. At least 20 hours should be completed in any one year of the two-year period. At least 24 of the 80 hours should relate directly to the government environment, government auditing or the specific or unique environment in which the audited entity operates. For individuals responsible for planning, directing, or reporting on the audit, and auditors who are not involved in those activities but charge 20% or more of their time to GAGAS assignments, they should also have at least an additional 56 hours of CPE in every 2-year period that enhances the auditor's professional proficiency to perform audits and/or attestation engagements. The auditor or audit organization should maintain documentation of the education and training completed.

- ~~*Licensing Requirements*~~ – For financial audits that lead to the expression of an opinion, the auditor should be proficient in the appropriate accounting principles and standards and in governmental auditing. The public accountants engaged to conduct audits should be licensed certified public accountants or persons working for a licensed certified public accounting firm. The Texas Education Code 44.008 requires the financial statements to be audited by a certified or public accountant holding a permit from the Texas State Board of Public Accountancy.

### **4.5.1.2 GAGAS Quality Control**

~~Audit organizations conducting governmental audits should have an appropriate internal quality control system in place and participate in an external peer review program. GAGAS as well as GAAS requires auditors to participate in an external peer review program at least once every three years. Refer to the Peer Review section in this module for further discussion of the requirements regarding external peer reviews. Audit organizations seeking to enter into a contract to perform an audit in accordance with GAGAS should provide their most recent external peer review to the entity contracting for the audit.~~

### **4.5.2 Fieldwork Standards**

~~The AICPA's GAAS established three standards for fieldwork to guide auditors in planning and performing the audit:~~

- ~~The auditor must adequately plan the work and must properly supervise any assistants.~~
- ~~The auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures.~~
- ~~The auditor must obtain sufficient appropriate audit evidence by performing audit procedures to afford a reasonable basis for an opinion regarding the financial statements under audit.~~

~~The fieldwork standards of GAGAS incorporate the AICPA standards. However, to meet the special needs and interests of the public sector, the Yellow Book also sets forth certain~~

supplemental standards for planning, irregularities, illegal acts and other noncompliance, internal controls, and financial-related audits. The additional GAGAS standards relate to auditor communication; considering the results of previous audits and attestation engagements; detecting material misstatements resulting from violations of contract provisions or grant agreements or from abuse; developing elements of a finding for financial audits; and audit documentation.

There is a new [2011 Internet Version](#) of Government Auditing Standards which the GAO will issue formally within the next year. It will apply to financial audits and attestation engagements for periods ending on or after December 15, 2012; and performance audits beginning on or after December 15, 2011. Early implementation is not permissible.

(The internet edition contains some revised terminology. In the context of financial audits, the term “performance” will replace “fieldwork” (e.g. “Fieldwork Standards” will become “Performance Standards”). In the context of performance auditing, there will be no change: “fieldwork” will remain “fieldwork”.)

- *Auditor Communication*—Auditors should communicate information regarding the auditor’s responsibilities under GAAS, an overview of the planned scope and timing of the audit and significant findings from the audit. GAGAS broadens the parties included in the communication and the items for the auditors to communicate. Under GAGAS, auditors should communicate certain information in writing to management, those charged with governance, and individuals contracting for or requesting the audit. The AICPA defines those charged with governance as the person(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. If it’s not clear who are “those charged with governance”, the auditor should document the process followed and document conclusions reached on the appropriate individuals to receive the auditor communications.
- *Previous Audits and Attestation Engagements*—Auditors should consider the results of previous audits and attestation engagements and follow up on significant findings and recommendations that directly relate to the objectives of the audit being undertaken. Auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations that could have a material effect on the financial statements.
- *Detecting Material Misstatements Resulting from Violations of Contract Provisions or Grant Agreements or from Abuse*—Auditors should design the audit to provide reasonable assurance of detecting misstatements resulting from violations of provisions of contracts or grant agreements that could have a direct and material effect on financial statement amounts or other financial data significant to the audit objectives. If specific information comes to the auditors’ attention that provides evidence concerning the existence of possible violations of provisions of contracts or grant agreements that could have a material indirect effect on the determination of financial statement amounts or objectives, auditors should apply audit procedures specifically directed to

ascertain whether violations of provisions for contracts or grant agreements have occurred or are likely to have occurred. Auditors should determine the effect on the financial statements as well as implications for other aspects of the audit.

Auditors should be alert to situations or transactions that could be indicative of abuse, and if indications of abuse exist that could significantly affect the financial statement amounts or other financial data, auditors should apply audit procedures specifically directed to ascertain whether abuse has occurred and the effect on the financial statement amounts or other financial data. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. It also involves misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. It does not necessarily involve fraud, violation of laws, regulations, or provisions of a contract or grant agreement.

There is no change in responsibility regarding fraud and illegal acts. However, auditors should review the [Overall Supplemental Guidance](#) section of Appendix I of the 2011 internet version of the Yellow Book.

- *Developing Elements of a Finding*—The elements needed for a finding depend on the objectives of the audit. Audit findings may involve deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse. When auditors identify deficiencies, they should plan and perform procedures to develop the elements of the findings that are relevant and necessary to achieve the audit objectives. Four elements of an audit finding are:

*Criteria*—the laws, regulations, contracts, grant agreements, standards, measures, expectations of what should exist, defined business practices, and benchmarks against which performance is compared or evaluated.

*Condition*—a situation that exists

*Cause*—reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria)

*Effect or potential effect*—impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria)

- *Audit Documentation*—Audit documentation related to planning, conducting, and reporting on the audit should contain sufficient information to enable an experienced auditor who has had no previous connection with the audit to understand the nature, timing, and extent of procedures performed; the results of procedures performed and evidence obtained; how the audit evidence relates to the audit conclusions; and the conclusions reached on significant matters.

- Audit documentation serves to (1) provide the principal support for the auditors' report, (2) aid auditors in conducting and supervising the audit, and (3) allow for the review of audit quality.
- Audit documentation for financial audits performed under GAGAS should contain the following additional items not explicitly addressed in the AICPA standards or elsewhere in GAGAS:
  - Evidence of supervisory review of the work performed.
  - The auditors' determination that certain additional government auditing standards do not apply or that an applicable standard was not followed, the reasons therefore, and the known effect that not following the applicable standard had, or could have had, on the audit.

*Working Papers Retention*—Audit organizations should establish controls to ensure the safe custody and retention of working papers for a time sufficient to satisfy legal and administrative requirements. TEA requires that working papers be retained by the auditor for a period of not less than five years. Although the working papers are subject to review by auditors from TEA, GAO, or from other applicable governmental agencies, they are not otherwise considered as records open to the general public.

For further information auditors should refer to the 2007 revision of the [Government Auditing Standards](#), and the [internet version](#) that contains the intended content for the final 2011 Revision

### 4.5.3 Reporting Standards

The AICPA's GAAS prescribe four standards of reporting:

- The auditor must state in the auditor's report whether the financial statements are presented in accordance with generally accepted accounting principles.
- "The auditor must identify in the auditor's report those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.
- When the auditor determines that informative disclosures are not reasonably adequate, the auditor must so state in the auditor's report.

- The auditor must either express an opinion regarding the financial statements, taken as a whole, or state that an opinion cannot be expressed, in the auditor's report. When the auditor cannot express an overall opinion, the auditor should state the reasons therefore in the auditor's report. In all cases where an auditor's name is associated with financial statements, the auditor should clearly indicate the character of the auditor's work, if any, and the degree of responsibility the auditor is taking, in the auditor's report.

Government Auditing Standards, which incorporate AICPA SAS, require auditors to report significant deficiencies in internal control, indicating those deemed to be material weaknesses.

When the 2007 revision was issued, SAS 112 set the standards for communicating Internal Control Related Matters in an Audit. Effective for audits of periods ending after December 15, 2009, SAS 115/AU Section 325 has superseded SAS 112, and certain definitions have changed. Please see [Section 4.6.7 Management Communications](#) for a discussion.

In addition to GAAS guidance on reporting, GAGAS provides additional reporting standards to meet the special needs and interests of the public sector:

- Reporting auditors' compliance with GAGAS (normally via a statement in the audit report);
- Reporting on internal control and compliance with laws, regulations, and provisions of contracts or grant agreements;

When providing an opinion or a disclaimer on financial statements, auditors should include in their report on the financial statements either a (1) description of the scope of the auditors' testing of internal control over financial reporting and compliance with laws, regulations, and provisions of contracts or grant agreements and the results of those tests or an opinion, if sufficient work was performed, or (2) reference to the separate report(s) containing that information. If auditors report separately, reference the separate report containing this information and state that the separate report is an integral part of the audit and should be considered in assessing the results of the audit.

- Reporting deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, and abuse;

For financial audits, including audits of financial statements in which the auditor provides an opinion or disclaimer, auditors should report, as applicable to the objectives of the audit, and based upon the audit work performed, (1) significant deficiencies in internal control, identifying those considered to be material weaknesses, (2) all instances of fraud and illegal acts unless clearly inconsequential, and (3) violations of provisions of contracts or grant agreements and abuse that could have a material effect on the financial statements. GAGAS includes additional reporting standards that

~~require reporting fraud and illegal acts that have an effect on the financial statements—that is more than inconsequential, violations of provisions of contracts or grant agreements that have a material effect on the determination of financial statement amounts or other financial data significant to the audit, and abuse that is material, either quantitatively or qualitatively.~~

- ~~• Communicating significant matters in the auditors' report~~
- ~~• Reporting on the restatement of previously issued financial statements~~
- ~~• Reporting views of responsible officials;~~

~~If the auditors' report discloses deficiencies in internal control, fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse, auditors should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as planned corrective actions.~~

- ~~• Reporting confidential or sensitive information; and~~

~~If certain pertinent information is prohibited from general disclosure, the audit report should state the nature of the information omitted and the requirement that makes the omission necessary.~~

- ~~• Distributing reports.~~

~~When public accountants are engaged to conduct an audit under GAGAS, they should clarify report distribution responsibilities with the engaging organization.~~

~~For further information auditors should refer to the 2007 revision of the [Government Auditing Standards](#), and the almost final 2011 internet version.~~

## **4.5.4 Performance Audits**

~~When auditors are engaged to conduct performance audits under GAGAS, they should refer to the GAS for fieldwork and reporting standards for *performance audits* discussed in~~

chapters [7](#) and [8](#) of the 2007 revision of the [Government Auditing Standards](#), and in chapters [6](#) and [7](#) of the 2011 internet version.

### **4.5.5 Attestation Engagements**

When auditors are engaged to conduct attestation engagements under GAGAS, they should refer to the GAS for general, fieldwork and reporting standards for *attestation engagements* discussed in [chapter 6](#) of the 2007 revision of the [Government Auditing Standards](#), and in chapter [5](#) of the 2011 internet version.

## 4.6 Financial Statement Audit

*Financial statement* audits provide reasonable assurance about whether the financial statements of a school district present fairly the financial position, results of operations, and cash flows of the school district in conformity with generally accepted accounting principles or other bases of accounting. This section provides general guidance for independent auditors in the performance of a *financial statement* audit of a Texas school district. This guidance should be used in conjunction with the AICPA's *Audit and Accounting Guide—State and Local Governments (ASLG)*. The information in this section is organized as follows:

- Establishment of the terms of the engagement
- Audit planning elements
- Obtaining an understanding of internal control
- Performing substantive procedures
- Compliance with laws and regulations
- Concluding the audit
- Management communications
- Auditor's reports

The Single Audit section of this module provides information regarding the performance of *compliance audits*.

Update 7 of the Financial Accountability System Resource Guide required all school districts in Texas to implement the provisions of GASB Statement No. 34 for the fiscal year ending August 31, 2002 (or June 30, 2002 for those districts electing to change their fiscal year end).

### 4.6.1 Establishment of the Terms of the Engagement

Upon the acceptance or continuation of an audit engagement by an independent auditor, the terms of the engagement must be established. These terms may be expressed by the independent auditor in an *engagement letter* addressed to the board of trustees. The engagement letter outlines the scope of the audit engagement and should include the following components:

- A description of *financial statements* to be audited (e.g., basic financial statements with accompanying RSI, separate statements of component units, individual funds, or combining statements)
- A description of the *audit services* to be provided (e.g., financial and/or *single audit*)
- A description of the *reports* to be issued (e.g., auditors' opinion on basic financial statements with accompanying RSI, reports on internal controls and compliance with laws and regulations as required for a *single audit*)
- Audit conduct:

A statement that the audit will be conducted according to GAAS

A statement that the audit will be conducted according to GAGAS, if the auditor is expected to meet this requirement (TEA requires that audits of Texas school districts meet this requirement)

If a *single audit* is required, a statement should also be included that the audit will be conducted in accordance with GAGAS, the Single Audit Act Amendments of 1996, and the provisions of [OMB Circular A-133](#), *Audits of States, Local Governments, and Non-Profit Organizations*

- A brief general description of the *overall audit strategy*
- A statement regarding the concept of *reasonable assurance* (that the auditor will not perform a detailed examination of all transactions, financial or *single audit*, therefore there is a risk that material errors, irregularities, or illegal acts, including fraud or defalcations, may exist and not be detected by the auditor)
- An audit includes obtaining an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, the auditor is responsible for ensuring that those charged with governance are aware of any significant deficiencies that come to his or her attention.

- ~~Management's responsibility for:~~
  - ~~the financial statements and the selection and application of the accounting policies~~
  - ~~adjusting the financial statements to correct material misstatements and for representing that the effects of any uncorrected misstatements are immaterial to the financial statements taken as a whole;~~
  - ~~establishing and maintaining effective internal control over financial reporting~~
  - ~~designing and implementing programs and controls to prevent and detect fraud~~
  - ~~identifying and ensuring that the district complies with the laws and regulations applicable to its activities~~
  - ~~making all financial records and related information available to the auditor~~
- ~~Extent of *client assistance* for the audit~~
- ~~*Other communications* arising from the audit (e.g., significant deficiencies, irregularities and illegal acts, other internal control or efficiency comments and recommendations)~~
- ~~Audit *timing* and deadlines~~
- ~~Audit *fees*~~
- ~~A client signed acknowledgment of engagement letter. See [Appendix 2](#) for a sample engagement letter~~
- ~~Management provision of a letter that confirms certain representations made during the audit~~

~~Once the terms of the engagement have been established and an engagement letter has been acknowledged and signed by the school district, the independent auditor may begin the audit process.~~

## ~~4.6.2 Planning Elements~~

~~The audit process for a school district begins with planning. Planning for an audit can be defined as establishing the audit approach to reach the objectives in the engagement letter.~~

Planning is required under GAAS and is used by independent auditors to obtain and document their understanding of the school district's environment and operations. In planning a school district audit, the auditor should:

- Communicate with the district concerning engagement details and auditor/district responsibilities
- Identify the engagement's reporting objectives
- Verify auditor's independence and identify the auditor's role as principal auditor, component unit auditor or joint auditor
- Consider the internal audit function, if applicable
- Compute materiality
- Obtain an understanding of the school district's operations
- Review related parties and transactions
- Evaluate factors affecting the risk of financial statement misstatements
- Determine compliance requirements
- Consider Required Supplementary Information and Supplementary Information
- Establish the audit approach and develop an audit program
- Other matters

#### **4.6.2.1 Communicate with the District Concerning Engagement Details and Auditor/District Responsibilities**

[\*Government Auditing Standards\*](#), Auditor Communication, has a field work standard and a reporting standard for financial statement audits to improve auditor communication concerning the auditor's work on compliance with laws and regulations and internal control over financial reporting. This requires specific communication with the school district, the individuals contracting for or requesting the audit services, and the audit committee regarding the scope of compliance and internal control work to be performed under [\*Government Auditing Standards\*](#). It also requires the auditor to emphasize in the auditor's report on the financial statements the importance of the reports on compliance with laws and regulations and internal control over financial reporting when these reports are issued separately from the report on the financial statements. AU section 311, Planning and Supervision, also provides guidance.

The independent auditor may decide to hold a pre-audit or entrance conference with the school district to discuss the responsibilities of both the auditor and the school district. Items which may be discussed at the pre-audit conference include the following:

- Introduction of the audit staff
- New accounting and financial reporting standards that the district has implemented or is required to implement
- Time schedule of the audit, including the following relevant dates:
  - Closing of the books of account
  - Start of the audit
  - Delivery of the report
  - Board meeting
- Reports to be provided by the independent auditor pursuant to the terms outlined in the engagement letter
- Effect of new auditing requirements or audit procedures or the scope of the audit (For audits of financial statements for periods beginning on or after 12/15/10, these may include SAS 118/AU sec. 550-551, SAS 119/AU sec. 551, and SAS 120/AU sec. 558)
- Purpose, nature, scope, and limitations of the audit
- Auditor's responsibility for communicating with management if the auditor becomes aware of an audit requirement not covered in the engagement letter.
- The auditor's responsibilities (if applicable):
  - For communicating certain matters to those charged with governance
  - For discovering and reporting material misstatements resulting from illegal acts, errors or fraud
  - For making specific inquiries of those charged with governance, internal auditors and other entity personnel about fraud

- ~~The district's responsibilities:~~
  - ~~To provide required schedules~~
  - ~~To prepare the basic financial statements, RSI, including MD&A and supplementary information other than RSI~~
  - ~~To identify component units that should be reported in the entity's financial statements~~
  - ~~To adjust the financial statements to correct material misstatements and to affirm to the auditor in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor are immaterial~~
  - ~~To identify compliance requirements that have a direct and material effect on amounts and to disclose applicable instances of noncompliance~~
  - ~~To identify related party transactions and determine the appropriate reporting requirements~~
  - ~~To comply with any industry association certificate program requirements (if applicable) for the comprehensive annual financial report (CAFR)~~
  - ~~To provide a management representation letter outlining management responsibilities~~
  
- ~~Identification of federal and state financial assistance programs, if any~~
  
- ~~Need for lawyer letters or alternative procedures if the district doesn't retain inside or outside counsel and hasn't consulted a lawyer during the period about litigation, claims or assessments~~
  
- ~~Assistance to be provided by internal auditors~~

~~During the planning process, the independent auditor should determine whether the school district is subject to additional audit requirements that are not included in the terms of the engagement. If the auditor determines that an additional audit is required, the auditor should inform the management of the school district and the terms of the engagement should be modified.~~

#### **4.6.2.2 Identify the Engagement's Reporting Objectives**

Before commencing any part of the audit, the auditor should identify the specific reports to be issued as a result of the audit. These reports should be clearly specified in the engagement letter. When auditors are engaged to perform a *financial statement audit*, they are required to report on the following:

- *Basic financial statements with accompanying RSI*, which include the government-wide financial statements, fund financial statements and notes to the financial statements.—RSI consists of MD&A and other RSI. The independent auditor should include supplementary schedules as required. The audited statements will be presented according to GASB Statement No. 34 and other statements as applicable.
- The *Comprehensive Annual Financial Report (CAFR)* which includes all funds and account groups of the reporting entity. The CAFR presents the basic financial statements with accompanying RSI, combining and individual fund financial statements, schedules and statistical tables. The CAFR is divided into three sections: introductory, financial and statistical. Texas school districts are not required to prepare a CAFR; however, there are between 40 and 50 school districts that are preparing a CAFR.
- Financial statements of a *component unit*, including applicable required supplementary information
- *Individual fund* financial statements
- *Special* reports, for example, compliance with debt covenants

All Texas school districts are required to comply with *Government Auditing Standards*. The scope of the engagement may include requirements within the Single Audit Act Amendments of 1996 if the school district expends federal financial assistance. Other factors as well may add to the scope of the audit. Such additional reporting requirements should be clearly specified in the engagement letter. The Single Audit section of this module addresses the requirements of the Single Audit Act Amendments of 1996.

In addition to the reports outlined, the independent auditor should determine and include reports required (if there are any) for state, county and local grantor agencies.

### **4.6.2.3 Verify Auditor's Independence and Identify the Auditor's Role as Principal Auditor, Component Unit Auditor or Joint Auditor**

#### ***Independence***

Auditors for Texas school district financial statements are required to be independent. In order to determine independence, auditors should follow Rule 101, Independence, of the AICPA Code of Professional Conduct (AICPA, Professional Standards, Vol. 2, ET sec. 101), along with its Interpretations, and Ethics Rulings. Auditors must also meet the independence requirements of *Government Auditing Standards* (Chapter 3). (As a result of the Sarbanes Oxley Act and Public Company Accounting Oversight Board (PCAOB) standards, there was more interest in internal controls and auditors' responsibilities for reporting control deficiencies. SAS 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires auditors to report deficiencies in writing. The expectation is that there will be more findings regarding internal control due to the new term significant deficiencies (rather than reportable conditions) and the new definition of material weaknesses. The requirements prevent the auditor from being part of the district's internal control; however, another CPA firm can be part of a client's internal control. One problem is that for small districts who have previously had the auditor involved in the drafting of the entity's financial statements, SAS 115 considers it to be a strong indication of material weakness in internal control if the district has ineffective controls over the preparation of the financial statements to the extent that there are no controls or the controls would be ineffective in preventing or detecting material misstatements. The AICPA's Auditing Standards Board (ASB) suggests that district personnel could be trained to be more knowledgeable or the district could utilize an outsourced firm to prepare financial statements which are then audited by the auditor.

#### ***Auditor Participation Level***

An auditor could be engaged as a principal auditor, a component unit auditor or a joint auditor. The guidance included in *AICPA Professional Standards*, AU Section 543 indicates that auditors' responsibilities include determining whether they will serve as principal auditors. The responsibilities of the auditor in each instance are clearly defined.

#### ***Principal Auditor***

To serve as the principal auditor of the school district, the independent auditor must meet both of the following criteria:

- ~~The auditor should be engaged by the school district to be the principal auditor of the financial reporting entity~~
- ~~The auditor should be responsible for auditing the general fund of the school district~~

~~If both of these criteria have been met, the principal auditor must also confirm the independence of other auditors, evaluate and prepare adjustments, reclassifications and/or combinations of component unit financial statements to conform with the presentation of the basic financial statements of the school district. Additionally, if the principal auditor refers in the audit opinion to that part of the audit that was performed by another auditor, the principal auditor must disclose the magnitude of the portion of the financial statements (by stating dollar amounts or percentages of one or more of the following: total assets, total revenues, or other criteria which most clearly reveals the portion) that was audited by another auditor.~~

### ***Component Unit Auditor***

~~If the principal auditor for the primary government is not the same as for the component unit, the principal auditor and the component unit auditor *must* reach an understanding of the reporting requirements and responsibilities.~~

### ***Joint Auditor***

~~When the audit of the school district is performed as a joint venture or on a subcontract basis between two or more CPA firms, the auditors involved should reach a formal understanding of their respective responsibilities. This formal understanding is specified in a written contract between the auditors and should include:~~

- ~~Client communication responsibilities, including general communication and communicating findings~~
- ~~The responsibility for signing the audit report~~
- ~~Method of compensation~~
- ~~Supervision and staffing of the audit engagement~~

- ~~Work paper documentation and review procedures~~

#### **4.6.2.4 ~~Consider the Internal Audit Function, if Applicable~~**

~~Auditors should evaluate the role of the internal audit function, if applicable, and consider whether the auditor may be able to use the work of the internal auditor to assist in the audit. If there is an internal audit section, there may be more attention devoted to internal control and the internal controls may be monitored on an ongoing basis. The auditor should refer to AU Section 322, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*.~~

~~Texas Education Code § 11.170 was added by the 79th Legislature in the 3rd called session and became effective May 26, 2006. It states that if a school district employs an internal auditor:~~

- ~~(1) the board of trustees shall select the internal auditor; and~~
- ~~(2) the internal auditor shall report directly to the board.~~

#### **4.6.2.5 ~~Compute Materiality~~**

~~Governmental reporting requirements involve the presentation of both government wide and fund financial statements. Government wide statements must report both governmental and business type activities (and any component units), and fund statements must report governmental, proprietary, and fiduciary statements. GASB specifies that the independent auditor should make separate materiality evaluations for governmental activities, business type activities, and each major governmental and enterprise fund since they are considered to be quantitatively material. The remaining nonmajor governmental, enterprise, internal service, and fiduciary funds may or may not be quantitatively material.~~

~~The determination of what is material to the users is a matter of professional judgment.~~

#### ***Audit Scope and Materiality***

~~In determining materiality for the audit engagement, the independent auditor should make separate materiality determinations for each opinion unit. The opinion units in a government's basic financial statements are the governmental activities; the business type activities; the aggregate discretely presented component units (not common in Texas school districts); each major governmental and enterprise fund; and the aggregate remaining fund information (nonmajor governmental and enterprise funds, the internal~~

service fund type, and the fiduciary fund type). For additional details, the auditor should refer to the *AICPA Audit and Accounting Guide—State and Local Governments*.

In calculating the planning materiality, the independent auditor must determine what base should be used. Examples of bases which may be used include total assets and/or total revenues. The auditor must use professional judgment to determine which base to use for the computation of planning materiality. After determining the base amount, the independent auditor establishes the materiality level using a percentage or a table with variable percentage amounts. The percentage selected is based on the independent auditor's judgment whose objective is to obtain an appropriate threshold for testing. The objectives of the tests are to obtain reasonable assurance of detecting misstatements that could be material to the financial statements taken as a whole.

#### **4.6.2.6 Obtain an Understanding of School District Operations**

##### ***GENERAL***

The auditor should obtain an understanding of the school district's business and consider aspects of the school district to assess the risks of material misstatement and design further audit procedures. Consideration should be given to the following areas/items:

- The number and types of campuses in the school district
- The total fiscal year budget
- The total student population and average daily attendance
- The total number of employees
- Services provided by the school district including special programs, pilot programs, or programs administered with state or federal funding
- The nature of shared service arrangements

- ~~The nature of joint ventures, if any~~
- ~~Factors affecting the continued functioning of the school district (e.g., any limitations on tax base or tax rate)~~
- ~~The existence and functions of an audit committee~~
- ~~The school district's primary sources of revenue (e.g., property taxes, grants, etc.)~~
- ~~The school district's electronic data processing (EDP) arrangements. This assessment should include determining if the school district contracts with a regional education service center, contracts with another outside vendor or maintains its own EDP system in-house. The independent auditor should also assess the types of hardware and software that the school district uses and the size of the EDP department~~
- ~~The nature of compliance auditing requirements~~
- ~~The organizational structure~~
- ~~Laws, statutes and regulations governing the general operations of the school district~~
- ~~The types of funds and supplementary records maintained for capital assets and long-term debt and the entity's methods of producing information for presentation in the government-wide financial statements from fund-based accounting data~~
- ~~Significant internal or external events which could include changes in: management or key accounting personnel, policies and procedures, long-term debt, capital assets, legal requirements, economic consideration, and/or political environment~~
- ~~Opinion modifications on prior period financial statements that could lead to opinion modifications for the current period~~
- ~~Current status of prior period findings, including findings and questioned costs in compliance audits, that could require reporting of contingent liabilities~~
- ~~Accounting problems/issues~~

- ~~Reporting/disclosure issues~~

~~In addition, the auditor should determine whether all potential component units are properly included and reported in the school district's financial statements. The reporting entity as defined in GASB Statement No. 14 and 39, amended by GASB Statement No. 61, consists of the primary government (school district and all related component units). Refer to [Appendix 3](#) for criteria to determine whether a component unit should be presented as blended, discrete or not included in the financial statements as part of the reporting entity.~~

### **JJAEP Reported as a Discrete Component Unit in the Annual Financial Report**

In a few instances, a memorandum of understanding between a county government and a school district authorizes a school district to administer and operate the mandatory JJAEP operations on-behalf of the county government and provide services to school districts located in the county. When this is the case, the school district that has primary responsibility under the memorandum of understanding to administer the mandatory JJAEP operations will report the JJAEP as a discrete component unit of the school district in its annual financial report. Financial accounting records must provide a separate accounting for all transactions that are attributable to the mandatory JJAEP operations administered by a school district.

## ***DISTRICT AND ITS REPORTING ENVIRONMENT***

~~The auditor should be familiar with the differences in governmental accounting and reporting standards. The auditor should take into consideration any new GASB, FASB, or AICPA pronouncements, as well as any state mandated reporting requirements.~~

~~Texas school districts have historically been required to follow GAAP. Absent any guidance to the contrary from TEA, the district should adopt any new pronouncements as scheduled.~~

## ***PERFORM PRELIMINARY ANALYTICAL REVIEW PROCEDURES***

~~During the planning stages of the audit, the auditor should perform a preliminary analytical review of the financial statements to improve the auditor's understanding of the school district's operations, to assist the auditor in planning the nature, timing, and extent of other~~

auditing procedures, and to identify audit areas which may require audit emphasis. AU section 329, *Analytical Procedures*, requires the use of certain analytical procedures in the planning and final review stages of all audits including:

- A comparison of financial statement amounts to prior year financial statements or to budgeted amounts
- An investigation of material variances through discussions with school district management to identify issues or areas of specific risk that require the auditor's attention
- Comparisons of recorded amounts or ratios developed from recorded amounts to expectations developed by the auditor. (In school districts, the increase in number of students or number of teachers could be used as a basis for expected variances.)

AU section 316, *Consideration of Fraud in a Financial Statement Audit*, requires the auditor to evaluate whether analytical procedures indicate a previously unrecognized risk of material misstatement due to fraud.

## ***CONSIDER INTERNAL CONTROL OVER FINANCIAL REPORTING***

Additional considerations for an audit of a school district include:

- ◆ Superintendent and the school board are elected officials or report to elected officials and can be subject to political influences
- ◆ School board is required to hold its meetings in public
- ◆ Media and citizens scrutinize superintendent and school board decisions
- ◆ Superintendent and school board actions are heavily regulated by mandates, laws, regulations, grants, and contracts
- ◆ GAAP financial statements should follow GASB as well as any additional state requirements
- ◆ School district is required to respond to audit findings and any other regulatory reviews

The auditor should also consider the school district's use of service organizations and the requirements of SAS 70, *Service Organizations*, since the auditor has to consider the controls of the service organizations. Examples of school district organizations are third-party administrators for insurance purposes, investment management, data processing, and

tax collection. Other planning considerations are impacted by availability or lack thereof of a sufficient understanding of internal controls related to service organizations (see SAS No. 70). When a school district uses a service organization, such as a regional education service center and/or an appraisal district, the service organization's controls and records may be relevant to the school district's ability to record, process, summarize, and report financial data consistent with the assertions embodied in the entity's financial statements. If the auditor concludes that sufficient information is not available then the auditor may contact the service organization to obtain additional information or request that a service organization auditor may be engaged to perform procedures that will supply the necessary information, or the school district auditor may visit the service organization and perform such procedures. If the school district's auditor is unable to obtain sufficient evidence to achieve their audit objectives, then it may be necessary to qualify or disclaim an opinion on the financial statements.

Since the implementation of GASB 34, many school districts maintain their books and records on a fund accounting basis and make spreadsheets to convert to the full-accrual government-wide financial statements. Auditors would need to review the controls over the preparation of these spreadsheets, particularly regarding significant account balances and reconciling items.

#### **4.6.2.7 Review Related Parties and Transactions**

The auditor should review the district's identification of related parties.

NCGA Interpretation 6, Notes to the Financial Statements Disclosure, requires disclosure of related party transactions for all governments. FASB ASC 850-10-05 (Related Party Disclosures) requires the following specific disclosures:

- the nature of the relationships involved
- a description of the transactions, and other information necessary to understand the effects of the transactions on the financial statements (including transactions with nominal or zero amounts)
- the dollar amounts of transactions for each of the periods being reported, and the effects of any change in method
- amounts due from or to related parties as of the date of the financial statements and the terms and manner of settlement

#### **4.6.2.8 Material Misstatements**

While planning the audit, the independent auditor should consider factors that could affect the risk of the financial statements being materially misstated whether by error or fraud. These factors may either increase or decrease the scope of testing to be performed.

- ~~Errors refer to *unintentional* misstatements or omissions of amounts or disclosures in financial statements. Errors may involve:~~
  - ◆ ~~Mistakes in gathering or processing data from which financial statements are prepared.~~
  - ◆ ~~Unreasonable accounting estimates arising from oversight or misinterpretation of facts.~~
  - ◆ ~~Mistakes in the application of accounting principles relating to amount, classification, manner of presentation, or disclosure.~~
- ~~Fraud results from *intentional* acts that result in a misstatement either from *fraudulent financial reporting* (alteration of records or documents, omission of transactions/information, etc) or *misappropriation of assets* (embezzling receipts, stealing assets, or paying for goods/services not received).~~

Several of the factors which should be considered include:

### ***Control Environment of the School District***

The independent auditor should assess the overall control environment of the school district to determine if the existing internal controls are adequate. If the internal controls appear to be adequate, the independent auditor should establish audit procedures to test the controls and reduce the extent of substantive testing.

### ***Management's Integrity and Qualifications***

The independent auditor should assess the qualifications of management and supervisory staff of the school district to determine if they appear qualified for their job responsibilities. The assessment of management's integrity is an on-going process throughout the audit process.

### ***Prior Year's Audit Reports and Comments***

The independent auditor should review the prior year's audit reports and comments to determine the financial position of the school district, key balances and relationships, and

~~the extent and severity of the audit comments identified. This review will provide the independent auditor important information for assessing the scope and extent of testing for the audit.~~

### ***Laws, Rules and Regulations***

~~The independent auditor should determine if there are any laws, rules or regulations that could directly and materially affect the amounts reported on the financial statements.~~

### ***Accounting Estimates/Issues***

~~The independent auditor should review the reasonableness of significant accounting estimates or issues that could have a material effect on the amounts reported on the financial statements.~~

### ***Internal Audit Function***

~~If the school district has an internal audit function which will participate in the audit or on which the independent auditor intends to place reliance, the independent auditor should evaluate the function to determine if the internal auditors are truly independent of any operational responsibilities. The independent auditor should review a sample of the internal audit programs and work papers to determine if the design of the testing performed by the internal auditor evaluates the adequacy and effectiveness of the school district's internal control.~~

### ***Single Audit Requirements***

~~In planning the audit, the independent auditor must determine if the school district requires an audit in accordance with the Single Audit Act Amendments of 1996. The Single Audit Act Amendments of 1996 requires a governmental entity which expends \$500,000 or more in federal financial assistance to have a *single audit* performed in accordance with [OMB Circular A-133, Audits of State and Local Governments](#). The *single audit* requirements are further described in the Single Audit section of this module.~~

## ***Conditions for Fraud***

If management or employees are under pressure or have an incentive to commit fraud; or if controls are absent, overridden or ineffective, opportunities for fraud exist and those involved may be able to rationalize committing fraud.

### **4.6.2.9 Determine Compliance Requirements**

The auditor should determine compliance tests to be performed based on the laws and regulations applicable to the school district. The school district has the responsibility to identify all laws and regulations with which they need to comply. The auditor's responsibility at the planning stage is to identify those laws and regulations specified by the school district as material to the financial statement. Examples of compliance requirements to be considered are:

GAAP and GAS requirements

Arbitrage rebates for bonds

Legal authority for transactions—certain activities may not be performed unless authorized by law

Fund requirements—establishment of funds required by law or rule (debt service as an example)

Time, eligibility, and purpose restrictions—grants must be expended in a certain time period and only for certain purposes

Budgets—no expenditures allowed in excess of budget

Tax and debt limits—Limits on local tax rates and amounts of debt issued

Cash—restriction on types of investments and requirement to secure amounts in excess of FDIC insurance

Other legal and contractual—procurement standards may dictate purchasing procedures

GASB requires school districts to disclose any violations of compliance requirements in the notes to the financial statements.

Refer to the Single Audit section of this module for further discussion about compliance with laws and regulations.

#### **4.6.2.10 Consider Required Supplementary Information (RSI) and Supplementary Information (SI)**

RSI is information that GAAP requires to accompany the basic financial statements, such as GASB required MD&A and budgetary comparison information. SI is information that is not required by GAAP, such as the transmittal letter, combining financial statements, and a statistical section.

For audits of financial statements for periods beginning on or after December 15, 2010, please refer to [SAS 119](#), *Supplementary Information in Relation to the Financial Statements as a Whole*, and SAS 120, *Required Supplementary Information*.

#### **4.6.2.11 Establish the Audit Approach and Develop an Audit Program**

The auditor should design an effective audit approach to ensure that audit tests are efficient and that repetitive procedures are avoided. The auditor should consider the nature, timing, and extent of the tests to be performed and develop the audit program accordingly. The independent auditor should modify the audit program as needed to reflect changes in conditions, unexpected results from tests of operating effectiveness of internal accounting controls, new information or unanticipated activities.

A planning memorandum describing the overall approach for the audit of the school district may be prepared and should include:

- Audit objectives
- Audit staffing and responsibilities
- The application of analytical procedures
- The extent of supervision to be provided
- A time budget for the engagement by audit area
- Materiality levels used for planning

- ~~A risk assessment as it relates to the understanding of the five components of internal control obtained to plan the audit~~
- ~~Work paper documentation guidelines~~
- ~~The use of specialists, if any~~

~~Auditors may perform audit work based on transaction cycles such as revenue/receivables, expenditures/payables, etc. If this approach is used, the auditor must ensure that testing covers all opinion units in order to provide substantive evidence.~~

~~Since most districts maintain their records on a fund basis and use a separate process to develop the government wide statements, the auditor should plan accordingly. Another approach would be to perform audit work based on fund financial statements and the additional information developed for conversion to the government wide statements. The auditor would have to consider the processes and internal controls over both sets of information.~~

#### **4.6.2.12 Consider Other Planning Procedures**

~~Additional procedures which may assist the auditor in the planning of the audit are to:~~

- ~~Review prior year audit reports and work papers~~
- ~~Review reports issued during the year by grantor agencies (i.e., federal, state or other government agencies)~~
- ~~Review current accounting/auditing pronouncements for their impact on the current year's audit~~
- ~~Determine if there was significant employee turnover within the school district~~
- ~~Determine if there were significant changes in internal control~~
- ~~Determine if there were significant changes in the school district's computer systems~~
- ~~Determine if there are significant staff concerns/issues~~

- Discuss with the client the assistance to be provided to the auditor, i.e., schedules to be prepared and availability of the client
- Review board minutes for the year through the most current date available
- Review new contracts, agreements, and debt instruments entered into during the year

### **4.6.3 Obtaining an Understanding of Internal Control**

The independent auditor should obtain an adequate understanding of the school district's internal control related to the five components of internal control:

- (1) control environment,
- (2) risk assessment,
- (3) control activities,
- (4) information and communication, and
- (5) monitoring.

These are discussed in more detail in the following 5 sections of the resource guide. This may be accomplished by:

- Reviewing controls, and determining whether they have been placed in operation
- Assessing the materiality of the various account balances and transaction classes
- Evaluating the risk factors that could affect the scope of testing

#### **4.6.3.1 Control Environment**

The control environment establishes the school district management's attitude toward internal control. It is the basis for all other components of the system of internal control.

AICPA Statement on Auditing Standards No. 109 states that the control environment “sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.”

The control environment is affected by various factors, including the following:

- Integrity and ethical values
- Commitment to competence
- Participation of those charged with governance
- Management’s philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility
- Human resource policies and practices

The substance of controls is more important than their form because the controls may not be effectively implemented and maintained. An auditor should weigh the collective effect on the control environment of strengths and weaknesses of the organization’s internal control. It may be that a particular weakness may have a significant effect on the control environment.

#### **4.6.3.2 Risk Assessment**

Risk assessment defined in AU section 314, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, is the “entity’s identification, analysis, and management of relevant risks to the preparation of financial statements that are presented fairly in conformity with generally accepted accounting principles.”

Risks can arise or change as a result of the following factors:

- Changes in operating environment

- New personnel
- New or revamped information systems
- Rapid growth
- New technology
- New grant activities, building projects and other activities
- Organizational restructuring
- Accounting pronouncements
- Federal regulations
- School finance statutes

### ***Consideration of Fraud***

According to AU section 316, school districts' auditors are expected to perform procedures to assess the risk of fraud. The management of a school district is responsible for implementing appropriate administrative systems and policies that will sufficiently diminish the risk of fraud. Independent auditors will examine fiscal transactions, records, documents, procedures, processes, policies and/or systems, in addition to making observations and obtaining written evidence of close supervision and management of individuals that have access to fiscal assets and financial accounting processes. It is to be noted that school districts that provide evidence of proactive steps to adequately diminish the risk of fraud will achieve a more favorable assessment by their independent auditors.

It is recommended that school districts that have an enrollment of 5,000 and larger perform a periodic self-assessment of the risk for fraud. If a school district does not have an

~~internal audit department, the self-assessment may be obtained through a contract with a public accounting firm.~~

~~Additionally, certain procedures, policies and aspects of administrative systems will provide evidence of a proactive environment to diminish the risk of fraud, including:~~

- ~~• Separation of employees' roles and responsibilities relating to receipt of cash and access to accounting controls;~~
  
- ~~• Establishment of an audit committee of the board of trustees;~~
  
- ~~• Employee disclosure to the governing board and administration of a substantial interest in a business arrangement of the employee or immediate family prior to the award of contracts, or authorization of purchase orders and payment of invoices;~~
  
- ~~• Policies that require a monthly financial report to the board of trustees;~~
  
- ~~• Policies that address employee and board member relationships with vendors and suppliers;~~
  
- ~~• Policies that address acceptance of gifts, entertainment or favors;~~
  
- ~~• Policies that address kickbacks or secret commissions;~~
  
- ~~• Job descriptions that address access to accounting systems, and the organizational hierarchy of authorization, recording and approval of transactions;~~

- ~~Processes to verify adherence to authorized access to accounting system components, and the organizational hierarchy of authorization, recording and approval of transactions;~~
  
- ~~Policies that require dual signatures on checks;~~
  
- ~~Implementation of a written code of ethics or conduct;~~
  
- ~~Periodic training on a district's written code of ethics or conduct;~~
  
- ~~Periodic training on fraud awareness to administrators assigned responsibility for supervising and managing individuals that have access to fiscal assets and accounting controls;~~
  
- ~~Written policies communicating expectations for honest and ethical conduct;~~
  
- ~~Reporting systems to promote prompt reporting of suspected fraud to appropriate levels of internal management;~~
  
- ~~Policies that address prompt investigation of suspected fraud;~~
  
- ~~Policies that address immediate dismissal of any employee that has committed fraud;~~
  
- ~~Policies to require prompt analysis of factors that contributed to any instances of fraud, and reporting this information to the audit committee of the board and administration;~~
  
- ~~Policies that require background and credit checks of applicants for positions that involve access to fiscal assets and accounting controls~~

- ~~Systems to promote reporting fraud on a confidential basis;~~
  
- ~~Policies addressing actual or apparent conflicts of interest, such as business agreements between employees or their immediate family and the school district;~~
  
- ~~Written policies requiring true and accurate disclosure of information in reports and documents filed with the district, including expense, attendance, production, travel, financial, or similar reports and statements;~~
  
- ~~Written policies prohibiting the preferential disclosure of information that would provide a competitive advantage to selected vendors or suppliers during the competitive procurement process and prior to award of a contract by administration or board, except for information required to be disclosed by law or appropriate responses to inquiries about specifications in requests for qualifications, proposals or bids;~~
  
- ~~Policies requiring a full faith effort by employees to comply with applicable governmental laws, rules and regulations;~~
  
- ~~Policies requiring the prompt internal reporting of violations of the code of ethics or conduct to an appropriate person or persons;~~
  
- ~~Accountability for adherence to written standards, policies and/or the code of ethics through an annual performance evaluations; and~~
  
- ~~Periodic assessments by management of the risk of fraud through an internal audit function in mid- to large enrollment school districts.~~

~~It is expected that independent auditors will not automatically reach an adverse conclusion about the risk for fraud if one or more of the above factors are not evidenced during the annual audit. However, independent auditors will expect a greater degree of sophistication in larger school districts in relation to the implementation of systems to diminish the risk~~

for fraud. The American Institute of Certified Public Accountants has provided extensive guidance to independent auditors about this auditing requirement.

### 4.6.3.3 Control Activities

Control activities are “the policies and procedures that help ensure that management directives are carried out.” Control activities can be divided into four categories:

- Authorization
- Safeguarding
- Asset accountability
- Segregation of duties

The application of control activities, such as segregation of duties, is affected to some degree by the size of the school district. In smaller school districts, control activities will be less formal than in larger school districts. Additionally, certain types of control activities may not be relevant in a smaller entity.

### 4.6.3.4 Information and Communication

The information system relevant to financial reporting objectives, “which includes the accounting system, consists of the procedures, whether automated or manual, and records established to initiate, authorize, record, process, and report district transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities, and equity.” The auditor should obtain an understanding of the information system to comprehend:

- the classes of significant transactions
- the procedures by which transactions are initiated authorized, recorded, processed, and reported

- the related accounting records involved in initiating, authorizing, recording, processing, and reporting
- how the information system captures events and conditions other than classes of transactions
- the financial reporting process used to prepare the district's financial statements, including estimates and note disclosures.

Those charged with governance should deliver a clear message to school district personnel that control responsibilities must be taken seriously. School district personnel must understand their own role in the internal control system, as well as how individual activities relate to the work of others. In addition, school district personnel must have a means of communicating significant information to upper levels of management. In addition to internal communication, effective communication with external parties such as parents, TEA and various agencies of the federal government when necessary should be made available.

#### 4.6.3.5 Monitoring

Monitoring is “a process that assesses the quality of internal control performance over time.”

*Ongoing activities* include regular management and supervisory activities and other actions taken during the normal performance of an individual's daily responsibilities.

The nature and timing of *separate evaluations* depend on the effectiveness of ongoing activities and the risk that the internal controls are not performing as intended by school district management.

Deficiencies in the system of internal controls should be reported to management at the appropriate level.

One type of monitoring activity that management may perform is to examine certain ratios or financial indicators. These ratios and indicators are measures of performance reflecting key variables of the organization that normally lead to or indicate the current or future effectiveness of the school district.

The extent to which a manager is held accountable for the effectiveness of control procedures will probably determine the extent to which the manager monitors their performance. Management of a school district should assign responsibility and delegate authority with sufficient care to ensure that:

- Persons who perform control procedures are held accountable for their performance by those who monitor their activities
- Persons who monitor the performance of control procedures are held accountable by senior management, the board of trustees or the audit committee

If management routinely uses accounting information in making operating decisions, it is likely to establish effective controls and hold lower-level managers and employees accountable for their performance. In addition, if management routinely uses accounting information in measuring progress and operating results, it is likely to investigate significant variances between planned and actual results. This investigation may detect the causes of significant variances and affect the steps necessary to correct control procedures that failed to prevent misstatements.

#### **4.6.3.6 Documentation of Understanding of the Internal Control**

The auditor's understanding of the school district's internal control should be documented. The form of this documentation may consist of flowcharts and questionnaires or a memorandum depending on the size and complexity of the school district. As part of the documentation, the auditor should obtain an understanding of each of the five internal control components by performing procedures designed to determine if whether they have been placed in operation, as necessary for design of effective substantive tests.

The auditor should also document the discussion among the audit team regarding the possibility of misstatement due to error or fraud and the understanding of the school district's environment.

#### **4.6.3.7 Identifying and Testing Internal Controls**

The nature, timing and extent of procedures applied by the auditor to understand the five components of internal control will vary according to the size and complexity of the organization.

Refer to AU section 314, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* for further detail and explanation on consideration of factors like size and complexity on internal control.

If the school district expends federal financial assistance, the independent auditor should consider the internal control categories for which testing is required in accordance with [OMB Circular A-133](#). These additional internal control categories include:

- Transactions are properly recorded and accounted for to:
  - Permit the preparation of reliable financial statements and Federal reports
  - Maintain accountability over assets
  - Demonstrate compliance with laws, regulations, and other compliance requirements
- Transactions are executed in compliance with:
  - Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program
  - Any other laws and regulations that are identified in the [Compliance Supplement](#)
- Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition
- Specific requirements for major federal financial assistance programs
  - Activities allowed or unallowed.
  - Allowable costs/cost principles.
  - Cash management.
  - Davis Bacon Act.
  - Eligibility.
  - Equipment and real property management.

- Matching, level of effort, earmarking.
- Period of availability of Federal funds.
- Procurement and suspension and debarment.
- Program income.
- Real property acquisition and relocation assistance.
- Reporting.
- Subrecipient monitoring.
- Special tests and provisions.

#### **4.6.3.8 IT Internal Controls**

Since so many of today's business processes are IT driven, a key area of internal control involves IT control. A general IT controls section should be included in the documentation of each process. Schools must have reliable replicable, and audit proof detail about control of, and access to, the infrastructure (physical and hardware components) and software that support the financial data.

The auditor should obtain an understanding of how IT affects control activities that are relevant to planning the audit. There are two broad groupings of IT internal controls:

- **Application Controls** — apply to business processes they support and designed within the application to prevent and detect unauthorized transactions. These controls help ensure that transactions occurred, are authorized, and are completely and accurately recorded and processed.
- **General Controls** — apply to all information systems, support secure and continuous operation. In order to construct IT general controls, specific controls should be set up for different functional areas:
  - **Systems Security** — Use a password policy to make sure user authentication; access rights should be controlled and documented
  - **Configuration Management** — Only authorized software is in use; confirm that standard server configuration is documented and implemented

- ~~Data Management—Set up policies for handling, distribution and retention of data and financial reporting output; backup and recovery plan should be implemented~~
- ~~Operations—Management should establish and maintain standard policies and procedures for IT operations~~

~~The auditor should obtain sufficient knowledge of the information system, including the related business processes relevant to financial reporting, to understand:~~

- ~~The classes of transactions in the entity's operations that are significant to the financial statements;~~
- ~~The procedures within the automated system by which those transactions are initiated, authorized, recorded, processed, and reported in the financial statements;~~
- ~~How the information system captures events and conditions, other than classes of transactions, that are significant to the financial statements;~~
- ~~The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures.~~

~~The auditor should obtain an understanding of how the incorrect processing of transactions is resolved.~~

~~The auditor should consider whether the entity has responded adequately to the risks arising from IT by establishing effective controls. From the auditor's perspective, controls over IT systems are effective when they maintain the integrity of information and the security of the data such systems process.~~

~~Refer to AU section 314, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* for further detail on IT internal controls.~~

#### **4.6.4 Performance of Substantive Procedures**

~~Once the auditor has obtained an understanding of internal control, the auditor may determine the extent and type of substantive procedures to be performed. The ASLG documents procedures which should be performed for the various financial statement accounts and transactions (e.g., cash and investments, long term debt, etc.). The auditor should develop effective and efficient audit programs which include audit procedures that the auditor believes are necessary to accomplish the objectives of the audit.~~

~~The auditor's substantive procedures should include these steps:~~

~~agreeing the financial statements, including the notes, to the underlying accounting records, and~~

~~examining material journal entries and other adjustments made during preparation of the financial statements~~

~~The major areas requiring testing for a financial audit of a school district are identified below along with examples of audit procedures which may be performed by the independent auditor. While the list of procedures is comprehensive, it is not considered all-inclusive. An independent auditor may perform various other substantive tests as deemed appropriate by the circumstances. *While examples of audit procedures are provided in this module, these procedures are not considered to be all-inclusive. Such procedures are not intended to serve as an audit program for the independent auditor.*~~

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**Exhibit 1. Financial Audit Considerations**


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<b>Audit Areas and Suggested Audit Procedures</b>	<b>Specific School District Issues</b>	<b>Cross-Reference Guide</b>
<p><b>Cash</b></p> <ul style="list-style-type: none"> <li>● Confirm bank balances</li> <li>● Test bank reconciliations</li> <li>● Confirm pledged securities and review collateralization during the year and at year-end</li> <li>● Confirm highest combined (cash and certificates of deposit) balance, and pledged securities and FDIC insurance on the corresponding date, at depository bank during year</li> <li>● Test interest income on bank accounts</li> <li>● Test allocation of interest income to various funds</li> <li>● Identify all petty cash funds and trace to the general ledger</li> <li>● Consider the need to count petty cash funds based on dollar value of funds, frequency of reimbursement and volume of expenditures processed through the funds</li> <li>● Review petty cash counts performed by internal audit, if available</li> <li>● Prepare note disclosure</li> </ul>	<ul style="list-style-type: none"> <li>● Confirmation of highest combined balance on deposit and corresponding collateral</li> <li>● GASB Statements No. 3 and 40 disclosure</li> </ul>	<ul style="list-style-type: none"> <li>● Cash and Investments</li> <li>● Sample Annual Financial and Compliance Report</li> </ul>
<p><b>Investments</b></p> <ul style="list-style-type: none"> <li>● Inspect securities on hand and confirm securities held by others</li> <li>● Vouch cost of significant purchases</li> <li>● Vouch proceeds from significant sales</li> </ul>	<ul style="list-style-type: none"> <li>● GASB Statements No. 3, 28 and 40 disclosures</li> <li>● Test to ensure the school district's</li> </ul>	<ul style="list-style-type: none"> <li>● Cash and Investments</li> <li>● Sample Annual Financial and Compliance Report</li> </ul>

Audit Areas and Suggested Audit Procedures	Specific School District Issues	Cross-Reference Guide
<ul style="list-style-type: none"> <li>• Test gains/losses on sale of investments</li> <li>• Test investment income allocation to various funds</li> <li>• Test reasonableness of current year dividend and interest income, including amortization/accretion of any discounts or premiums</li> <li>• Determine if market value of securities have declined and whether such declines are other than temporary declines and assess the need to record an allowance to reduce the book value of investment to the market value</li> <li>• Prepare note disclosure</li> </ul>	<p>investments are authorized by statutory requirements and local policies</p>	
<p><b>Accounts Receivable</b></p> <ul style="list-style-type: none"> <li>• Obtain detailed listing of accounts receivable balance and reconcile to the general ledger</li> <li>• Trace accounts receivable to subsequent receipts</li> <li>• Agree federal expenditures/expenses per the general ledger to the expenditures/expenses shown on the Schedule of Federal Financial Assistance</li> <li>• Test collectability of the receivables and the adequacy of the allowance for bad debt</li> <li>• Ascertain that the criteria to record receivable and revenues in governmental-type funds was in accordance with measurable and available rule</li> <li>• Refer to Property Tax Accounts for test of taxes receivable</li> </ul>	<ul style="list-style-type: none"> <li>• Tests of state/federal receivables</li> </ul>	<ul style="list-style-type: none"> <li>• Accounts Receivable</li> <li>• Schedule of Federal Financial Assistance</li> <li>• Sample Annual Financial and Compliance Report</li> </ul>
<p><b>Prepays</b></p> <ul style="list-style-type: none"> <li>• Obtain a schedule of prepaid expenses and reconcile to the general ledger</li> <li>• Compare current year balances with prior</li> </ul>		

Audit Areas and Suggested Audit Procedures	Specific School District Issues	Cross-Reference Guide
<p>year balances and explain significant or unusual variances</p> <ul style="list-style-type: none"> <li>• Vouch significant additions</li> </ul>		
<p><b>Inventories</b></p> <ul style="list-style-type: none"> <li>• Obtain a copy of the Inventory subsidiary ledger and reconcile to the general ledger</li> <li>• Compare dollar amounts and composition of inventory to prior year and explain significant or unusual variances</li> <li>• Consider the need to observe physical inventory and perform tests of counts and pricing</li> <li>• Perform appropriate procedures for commodities inventory</li> </ul> <p>Test inventory valuation and ascertain that the inventory is recorded at lower of cost or market</p>	<ul style="list-style-type: none"> <li>• Reservation of fund balance</li> <li>• Perform appropriate procedures for commodities inventory</li> </ul>	<ul style="list-style-type: none"> <li>• Inventory</li> <li>• Fund Equity</li> </ul>
<p><b>Capital assets</b></p> <ul style="list-style-type: none"> <li>• Obtain a schedule of changes in capital assets and accumulated depreciation, which includes beginning balance, additions, deletions, and ending balance and reconcile to the general ledger</li> <li>• For capital additions, selected by audit sampling or based on materiality, examine supporting documents to determine whether expenditure is recorded in the proper period and classified correctly as a capital addition</li> <li>• Ascertain that addition in the general capital assets account group are properly recorded as capital outlay expenditures in the fund that disbursed the funds</li> <li>• Consider whether proper purchasing procedures were followed in acquiring capital assets</li> <li>• Consider physically inspecting significant</li> </ul>	<ul style="list-style-type: none"> <li>• Reconcile Capital Outlay 6600 accounts to capital asset additions</li> </ul>	<ul style="list-style-type: none"> <li>• Capital assets</li> <li>• Fund Equity</li> </ul>

<b>Audit Areas and Suggested Audit Procedures</b>	<b>Specific School District Issues</b>	<b>Cross-Reference Guide</b>
<p>additions</p> <ul style="list-style-type: none"> <li>• Consider vouching significant retirements</li> <li>• Vouch significant maintenance and repair expenditures to determine whether such expenditures are properly recorded as expenditures versus capital outlay</li> <li>• Prepare note disclosure</li> <li>• For all funds, test depreciation expense and accumulated depreciation</li> </ul>		
<p><b>Other Assets</b></p> <ul style="list-style-type: none"> <li>• Consider materiality of other assets in relation to total assets to determine whether testing may be limited</li> <li>• If balances are determined to be material, compare with prior year balances and explain significant or unusual variances</li> <li>• Perform appropriate other substantive procedures as necessary</li> </ul>		
<p><b>Accounts Payable</b></p> <ul style="list-style-type: none"> <li>• Obtain a listing of accounts payable and reconcile to the general ledger</li> <li>• Ensure that accounts payable are properly accounted for in accordance with GAAP (using measurable and available criteria for governmental type funds)</li> <li>• Perform a search for unrecorded liabilities by reviewing unprocessed invoices and subsequent disbursements</li> <li>• Document the school district's accounting policy relating to encumbrances</li> <li>• Obtain a listing of outstanding encumbrances at year end and inspect supporting documentation to determine propriety</li> <li>• Review outstanding purchase orders and</li> </ul>	<ul style="list-style-type: none"> <li>• Note disclosure for outstanding encumbrances at end of year</li> </ul>	<ul style="list-style-type: none"> <li>• Accounts Payable</li> <li>• Fund Equity</li> </ul>

<p><b>Audit Areas and Suggested Audit Procedures</b></p>	<p><b>Specific School District Issues</b></p>	<p><b>Cross-Reference Guide</b></p>
<p>determine whether budget appropriation accounts have been encumbered</p> <ul style="list-style-type: none"> <li>• Determine whether reservation of fund balance has been made if necessary</li> </ul>		
<p><b>Accrued Liabilities</b></p> <ul style="list-style-type: none"> <li>• Reconcile payroll totals for the year to Forms 941 filed with the federal government to test the accuracy of payroll expenses</li> <li>• Recompute the payroll accrual to determine reasonableness</li> <li>• Compare accruals for compensated absences to prior year to determine reasonableness; detail tests may also be performed</li> <li>• Ascertain that all the liability relating to the proprietary type fund is recorded in the fund and that the liability relating to governmental type funds payable from current resources is recorded in the governmental type funds while the long term liability is recorded in the General Long term Debt Account Group</li> <li>• Perform variance analysis or detail tests for other accruals</li> <li>• Prepare note disclosure</li> <li>• Ascertain that any contingent liabilities that meet SFAS criteria and payable from current resources are recorded as a current liability and the long term portion is recorded in the General Long Term Debt Account Group</li> </ul>	<ul style="list-style-type: none"> <li>• GASB Statement No. 16 regarding the recording of compensated absences</li> </ul> <p>(Note: Compensated absences accrual should include wage/salary plus benefits)</p> <ul style="list-style-type: none"> <li>• Accrual of salaries and wages</li> </ul>	<ul style="list-style-type: none"> <li>• Payroll Liabilities</li> <li>• Arbitrage Rebate Liabilities</li> <li>• Accrued Expenses</li> </ul>
<p><b>Long-Term Debt</b></p> <ul style="list-style-type: none"> <li>• Obtain an analysis of changes in debt which includes debt issued and retired during the year</li> <li>• Confirm debt terms and balances, or perform alternative procedures such as vouching of interest and principal payments</li> <li>• Agree new debt to authorization in the</li> </ul>	<ul style="list-style-type: none"> <li>• Schedule of Loans</li> <li>• Bond Schedule</li> <li>• Bond refunding accounting and disclosures</li> </ul>	<ul style="list-style-type: none"> <li>• Debt</li> </ul>

Audit Areas and Suggested Audit Procedures	Specific School District Issues	Cross-Reference Guide
<p>minutes</p> <ul style="list-style-type: none"> <li>• Determine whether the school district is in compliance with any restrictive covenants in loan and debt agreements</li> <li>• For bond refunding transactions, review accounting entries to determine if refunding was recorded in accordance with generally accepted accounting principles</li> <li>• Review capital and operating leases and determine whether properly recorded</li> <li>• Test reasonableness of interest</li> <li>• Prepare note disclosure</li> </ul>		
<p><b>Fund Balance</b></p> <ul style="list-style-type: none"> <li>• Obtain an analysis of changes to fund balance during the year</li> <li>• Reconcile beginning fund balance to prior year ending fund balance</li> <li>• Obtain supporting documentation for changes to fund balance other than excess (deficit) revenues over (under) expenditures and assess whether it is necessary to present items as changes to fund balance, and ascertain that the only transactions affecting fund balance represent residual equity transfers or material prior period adjustments</li> <li>• Review minutes for reservations or designations of fund balance</li> <li>• Examine support for reservations or designations</li> </ul>	<ul style="list-style-type: none"> <li>• Disclosure of deficit fund balances</li> <li>• Disclosure of explanations of adjustments to fund balance</li> <li>• Disclosure of reservations and designations of fund balance</li> </ul>	<ul style="list-style-type: none"> <li>• Fund Equity</li> </ul>
<p><b>Retained Earnings</b></p> <ul style="list-style-type: none"> <li>• Obtain an analysis of changes to retained earnings during the year</li> <li>• Reconcile beginning retained earnings to prior year ending retained earnings</li> <li>• Obtain supporting documentation for</li> </ul>		<ul style="list-style-type: none"> <li>• Fund Equity</li> </ul>

<b>Audit Areas and Suggested Audit Procedures</b>	<b>Specific School District Issues</b>	<b>Cross-Reference Guide</b>
<p>changes to retained earnings other than net income (loss) and assess whether it is necessary to present items as changes to retained earnings</p> <ul style="list-style-type: none"> <li>● Consider the appropriateness of the nature of restrictions and examine supporting documentation</li> <li>● Obtain an analysis of any changes in contributed capital and examine support for such changes</li> </ul>		
<p><b>Revenues</b></p> <ul style="list-style-type: none"> <li>● Identify major sources of revenue</li> <li>● Perform variance analysis comparing current year revenues to prior year revenues and/or budget and explain significant or unusual variances</li> <li>● Confirm federal/state revenues received during the year</li> <li>● Review propriety of accounting treatment of state revenues under Chapters 41 and 42, Texas Education Code</li> <li>● Perform tests of tax revenue as specified below in "Property Tax Accounts"</li> <li>● Perform appropriate other substantive procedures as necessary</li> </ul> <p>Prepare note disclosure</p>	<ul style="list-style-type: none"> <li>● Chapters 41 and 42, Texas Education Code</li> <li>● Federal revenues (applicability of the Single Audit Act)</li> </ul>	<ul style="list-style-type: none"> <li>● Revenues</li> <li>● Accounting for Foundation School Program Revenues</li> </ul>
<p><b>Expenditures and Expenses</b></p> <ul style="list-style-type: none"> <li>● Compare current year expenditures and expenses to prior year expenditures and explain significant or unusual variances</li> <li>● Perform variance analysis or detail tests for payroll benefit expenditures and expenses</li> <li>● Consider the need to perform detail tests of expenditure and expenses account balances</li> </ul>	<ul style="list-style-type: none"> <li>● Disclosure of excess expenditures over appropriations</li> </ul>	<ul style="list-style-type: none"> <li>● Expenditures</li> </ul>
<p><b>Capital Projects</b></p>		

Audit Areas and Suggested Audit Procedures	Specific School District Issues	Cross-Reference Guide
<ul style="list-style-type: none"> <li>• Test capital projects additions and ascertain that the expenditures are allowed to be disbursed from the funds available in the capital projects funds</li> <li>• Ascertain the additions were properly recorded as additions to the General Capital assets Account Group, if applicable</li> <li>• Coordinate the testing with the testing performed under the General Capital assets Account Group</li> </ul>		<ul style="list-style-type: none"> <li>• Capital assets</li> </ul>
<p><b>Property Tax Accounts</b></p> <ul style="list-style-type: none"> <li>• Confirm the total assessed valuation of the tax roll and compare to prior year assessed valuation and obtain explanations for significant variances</li> <li>• Obtain a summary of tax revenue and compare recorded revenue to the current budget and prior period actual</li> <li>• Obtain a copy of the ordinance establishing the tax rate, recalculate the total tax levy and compare to recorded property tax revenue</li> <li>• Obtain or prepare an analysis of historical tax collection percentages to determine collectibles of tax revenue</li> <li>• Determine whether an allowance for uncollectible taxes receivable has been properly recorded</li> <li>• Determine whether the tax accounts receivable less allowance for uncollectible taxes are properly offset by the deferred revenue amounts after consideration of 60-day tax revenues.</li> <li>• Consider confirming tax collections during the year if another entity collects taxes for the school district</li> <li>• Prepare note disclosures</li> </ul>	<ul style="list-style-type: none"> <li>• Schedule of Delinquent Taxes Receivable</li> <li>• Allocation of delinquent taxes receivable between general and debt service funds based on adopted rates for the year of the levy</li> </ul>	<ul style="list-style-type: none"> <li>• Property Taxes</li> <li>• Revenues</li> </ul>

Audit Areas and Suggested Audit Procedures	Specific School District Issues	Cross-Reference Guide
<p><b>Interfund Transactions</b></p> <ul style="list-style-type: none"> <li>● Determine whether all interfund transactions have been properly identified and classified by type in the financial statements</li> <li>● Determine whether transfers of resources are properly authorized, classified, and documented</li> <li>● Review reconciliations of interfund balances</li> <li>● Prepare note disclosure</li> </ul>		
<p><b>Self Insurance</b></p> <ul style="list-style-type: none"> <li>● If the school district has a self insurance program, determine the nature of the program and the fund(s) where activity is recorded</li> <li>● If the school district has a self insurance fund(s), obtain a trial balance of the fund(s)</li> <li>● Perform test of details for current year claims expenditures to determine whether properly recorded</li> <li>● Determine whether the estimated liability is adequate to cover the amounts needed to satisfy claims, including incurred but not reported (IBNR) claims</li> <li>● If the self insurance fund charges other funds premiums, review charges for reasonableness</li> <li>● Prepare note disclosure</li> </ul>	<ul style="list-style-type: none"> <li>● GASB Statement No. 10 requirements, regarding estimate of claims liability, including incurred but not reported claims</li> </ul>	<ul style="list-style-type: none"> <li>● Risk Financing and Related Insurance Issues</li> </ul>
<p><b>Budget</b></p> <ul style="list-style-type: none"> <li>● Review the minutes adopting the original budget and any amendments</li> <li>● Determine whether budget has been exceeded in expenditure categories at the legal level of control</li> </ul>	<ul style="list-style-type: none"> <li>● Budget prepared on or before August 20 (June 19th for districts that have a July 1st fiscal year start date) and adopted no later than August 31 (June 30, 20XX depending upon a</li> </ul>	<ul style="list-style-type: none"> <li>● Budgeting Module of the <i>Resource Guide</i></li> <li>● Sample Annual Financial and Compliance Report</li> </ul>

Audit Areas and Suggested Audit Procedures	Specific School District Issues	Cross Reference Guide
	<p>school's fiscal year-start date) and prior to the expenditure of any funds</p> <ul style="list-style-type: none"> <li>● Budget adopted before the tax rate for tax year</li> <li>● Budget amendments must be recorded in the minutes</li> <li>● Disclosure of unfavorable budget variances at the expenditure-functional level</li> </ul>	

## 4.6.5 Compliance with Laws and Regulations

In a school district audit, the auditor is also required to test compliance with laws and regulations. The following exhibit lists the major state compliance requirements which are to be tested by auditors along with suggested audit procedures. Auditors should refer to the State Regulations section within the Financial Accounting and Reporting module of the *Resource Guide* and other references for information regarding these requirements.

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**Exhibit 2. Compliance with Laws and Regulations**


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Laws and Regulations	Audit Procedures	Cross-Reference Guide
<p>52%/58% Direct-Expenditure-Requirement for FSP Program Allotments</p>	<ul style="list-style-type: none"> <li>● For 2011-2012, determine whether the School District spent 52% of the FSP allotment for direct costs related to compensatory education, bilingual education and special language programs, and special education programs; 55% on direct costs related to gifted and talented education programs; and 58% for career and technical education programs. Special 19-TAC Chapter 105.11(b) rules may apply for 2012-2013 on.</li>   <li>Total direct costs which will be considered for compliance monitoring purposes are: expenditures coded by the school district to specific Enhanced-PICs <i>plus</i> Allocations of expenditures to Enhanced-PICs from Undistributed PIC (99) based upon instructional FTEs <i>plus</i> Expenditures associated with a school district as a member of a shared services arrangement which are coded to specific Enhanced-PICs.</li>   <li>● For FSP Compensatory Education determine whether expenditures were in alignment with the strategies, supplemental FTEs and supplemental financial resources in the District/Campus Improvement Plan</li>   <li>● For the FSP special allotments determine that expenditures are attributed to services provided to eligible identified students and/or appropriate strategies, including Bilingual/ESL, state-compensatory education, gifted and talented, and special education</li> </ul>	<p>State Regulations, Financial Accounting and Reporting module; Compensatory Education Guidelines, Financial Accounting Treatments, and an Auditing and Reporting System module</p>
<p>Nepotism</p>	<ul style="list-style-type: none"> <li>● Determine whether the school district has written policies concerning nepotism</li>   <li>● Obtain confirmation from each board member stating that the trustee has not participated in any actions regarding related persons which would violate the nepotism laws of the State of Texas. See <a href="#">Appendix 5-9</a> for sample Board Member Representation Letter</li>   <li>● Ensure audit staff has reviewed the list of board members, specifically prior to performing payroll</li> </ul>	<p>State Regulations, Financial Accounting and Reporting module</p>

Laws and Regulations	Audit Procedures	Cross-Reference Guide
Pecuniary Interest	<p>disbursement testing or when reviewing the minutes</p> <ul style="list-style-type: none"> <li>• Determine whether the school district has written policies concerning pecuniary interest</li> <li>• Obtain confirmation from each board member stating that the trustee and his/her spouse has had no significant financial interest in entities doing business with the district during the year under audit. See <a href="#">Appendix 5.9</a> for sample Board Member Representation Letter</li> <li>• Inquire of school officials to determine if any employees had a conflict of interest</li> <li>• For selected expenditure transactions, review supporting documentation for evidence of conflict of interest</li> <li>• Ensure audit staff has reviewed the list of board members, specifically prior to performing vendor disbursement testing or when reviewing the minutes</li> </ul>	State Regulations, Financial Accounting and Reporting module
Depository Transactions	<ul style="list-style-type: none"> <li>• Confirm pledged securities and FDIC coverage and ensure deposits are adequately secured. See <a href="#">Appendix 5.3</a> for sample confirmation.</li> <li>• Review investments to determine allowability according to state compliance requirements</li> <li>• Prepare note disclosure in accordance with GASB Statements No. 3 and 40</li> </ul>	State Regulations, Financial Accounting and Reporting module
Contracts— Competitive Procurement and Competitive Quotations	<ul style="list-style-type: none"> <li>• Review expenditures for contracts in the amount of \$50,000 or greater (\$25,000 or greater and \$10,000 for competitive quotations for personal property prior to June 19, 2009), and for purchase orders to an individual vendor in the amount of 50,000 or greater (\$25,000 prior to June 19, 2009), to determine whether competitive procurement procedures were performed. This procedure can be performed in conjunction with testing of capital asset additions, disbursement and <i>single audit</i> procedures</li> </ul>	Purchasing module
Authorized Expenditures	<ul style="list-style-type: none"> <li>• Review expenditures to determine whether they are for legitimate school purposes only, in accordance with Section 45.105, Texas <a href="#">Education</a> Code. This procedure can be performed in conjunction with disbursement testing</li> <li>• Review fund balances and determine whether fund deficits, if any, have been adequately explained and</li> </ul>	State Regulations, Financial Accounting and Reporting module

Laws and Regulations	Audit Procedures	Cross-Reference Guide
	whether appropriate action has been taken to liquidate the deficit	
Apportionment of Taxes	<ul style="list-style-type: none"> <li>Obtain a copy of the ordinance establishing the tax rate and determine whether property taxes and penalty and interest collected were allocated to the funds according to the rates approved by the board of trustees</li> </ul>	State Regulations, Financial Accounting and Reporting module
Gifts of Public Funds	<ul style="list-style-type: none"> <li>Review expenditures for allowability and ensure school district funds were not utilized for private or personal purposes. This procedure can be performed in conjunction with disbursement testing</li> </ul>	State Regulations, Financial Accounting and Reporting module
Tax Collector Bond	<ul style="list-style-type: none"> <li>Confirm from the bonding agent the amount of the bond for the school district's tax collector and determine from review of the minutes whether the amount was approved by the board of school trustees</li> </ul>	State Regulations, Financial Accounting and Reporting module
Insurance Contracts	<ul style="list-style-type: none"> <li>Determine competitive procurement procedures were applied to purchase of insurance for aggregate contracts valued at \$50,000 or greater (\$25,000 or greater prior to June 19, 2009).</li> </ul>	State Regulations, Financial Accounting and Reporting module
Salaries of Personnel Units	<ul style="list-style-type: none"> <li>Review the school districts compensation plan to ensure the school district is paying at least the statutory minimum for employees who are qualified for and employed in positions classified under the Texas Public Education Compensation Plan, in accordance with <a href="#">Section 21.402</a>, Texas Education Code</li> <li>Select a sample of payroll disbursements and review selections to ensure the expenditures are in accordance with the school district's compensation plan.</li> </ul>	State Regulations, Financial Accounting and Reporting module
Construction Projects	<ul style="list-style-type: none"> <li>Ascertain that the wage rate paid to laborers for construction work is in accordance with the prevailing wage rate as described by <a href="#">Chapter 2258</a> of the Government Code.</li> </ul>	Texas Government Code
Student Fees	<ul style="list-style-type: none"> <li>Obtain a schedule of student fees charged by the school district and determine whether the fees are allowable per Section 11.158 of the Texas <a href="#">Education Code</a>.</li> </ul>	State Regulations, Financial Accounting and Reporting module
Accounting System	<ul style="list-style-type: none"> <li><i>Generally Accepted Accounting Principles (GAAP)</i> Through inquiry with management and by observations made throughout the audit, determine whether the school district's accounting system is in accordance with GAAP.</li> <li><i>Fund Accounting, Account Groups, &amp; Central Accounting</i> Through inquiry with management and by observations made throughout the audit, determine whether the school district is properly</li> </ul>	State Regulations, Financial Accounting and Reporting module

Laws and Regulations	Audit Procedures	Cross-Reference Guide
	<p>recording transactions utilizing fund accounting and account groups on a centralized basis.</p> <ul style="list-style-type: none"> <li>● <del>Capital assets</del>— Obtain a schedule of capital assets and ensure the assets have been recorded at cost or at estimated cost as appropriate.</li> <li>● <del>Depreciation</del>— Review depreciation expense and ensure it has been reported in the statement of activities.</li> <li>● <del>Basis of Accounting</del>— Through inquiry with management and by observations made throughout the audit, ensure the school district is utilizing the modified accrual or accrual method of accounting as appropriate for the fund.</li> <li>● <del>Budgetary Control/Encumbrance Accounting</del>— Review the books of account and determine whether the official school budget has been properly reflected in the books of account and whether the accounting system is utilizing the encumbrance method of accounting in order to control budgeted fund commitments.</li> <li>● <del>Uniform Classification and Terminology</del>— Review the books of account and ensure the school district's chart of accounts is maintained according to the <i>Resource Guide</i>.</li> <li>● <del>Accounting Alternatives</del>— Generally accepted accounting principles and the <i>Resource Guide</i> allow for certain flexibilities in recognizing certain revenues and expenditures. Consideration should be given for these alternatives when reviewing the accounting system.</li> <li>● <del>Fund Equity</del>— Review the fund equity of the school district and ensure it is comprised of the various components of fund equity as appropriate for the school district.</li> </ul>	
Refunding Bonds	<ul style="list-style-type: none"> <li>● Determine through inquiry with management and by observations made throughout the audit whether the school district refunded any bonds during the year, if so, ensure GASB Statement No. 7 for governmental type funds and GASB Statement No. 23 for proprietary type funds have been appropriately followed.</li> </ul>	State Regulations, Financial Accounting and Reporting module

Laws and Regulations	Audit Procedures	Cross-Reference Guide
State Program— Indirect Cost Rates	<ul style="list-style-type: none"> <li>• Obtain from the client the Indirect Cost Schedule</li> <li>• Review the schedule for mathematical accuracy and trace the reported expenditures to the school district's books of account</li> </ul>	State Regulations, Financial Accounting and Reporting module
Record Retention	<ul style="list-style-type: none"> <li>• Through inquiry with management and by observations made throughout the audit, determine whether the school district is retaining records in accordance with the Texas State Library and Archives Commission Local Library Schedules S-D and G-R.</li> </ul>	<a href="#">State Regulations</a> , Financial Accounting and Reporting module; Data Collection and Reporting module
<a href="#">PEIMS</a> Information	<ul style="list-style-type: none"> <li>• During audit field work, review the process used by the school district to generate PEIMS summarized fiscal data and review data for material errors in control totals, so that it may be submitted intact to the regional education service center for PEIMS submission</li> </ul>	State Regulations, Financial Accounting and Reporting module; Data Collection and Reporting module

### 4.6.6 Concluding the Audit

In addition to the audit procedures for the various financial statement accounts or elements, other, more general procedures should be performed. These procedures occur at or near the end of audit fieldwork and address the following:

- Written representations from management
- Disclosures of related party transactions
- Going concern considerations
- Communicating with Those Charged with Governance
- Subsequent events

- Analytical procedures
- Request attorney letters
- Misstatements and Audit Adjustments
- Audit Documentation

#### 4.6.6.1 Written Representations from Management

As part of an audit conducted in accordance with GAAS, it is required that the independent auditor obtain written representations from current management to complement other auditing procedures. Such representation should be obtained from responsible management officials, including the superintendent and the chief financial officer. According to AU Section 333, *Management Representations*, the management representation letter should include the following matters:

- Violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as a basis for recording a loss-contingency
- Management's responsibility for establishing and maintaining internal control to prevent fraud
- Management's knowledge of any fraud or suspected fraud
- Management's consideration of uncorrected adjustments for immateriality
- Management's responsibility for the district's compliance with laws, regulations, provisions of contracts, and grant agreements
- Management's identification and disclosure to the auditor of all laws, regulations, provisions of contracts, and grant agreements that have a direct and material effect on the determination of the financial statement amounts
- Compliance with budget laws and regulations related to adopting, approving, and amending
- Inclusion of all component units and joint ventures, if applicable

Other items to be considered:

- ~~Management's acknowledgment of its responsibility for the fair presentation in the financial statements of financial position, results of operations, and cash flows of its proprietary fund type in conformity with GAAP~~
- ~~Availability of all financial records and related data~~
- ~~Completeness and availability of all minutes of meetings of board of trustees~~
- ~~Information concerning related party transactions and related amounts receivable or payable~~
- ~~Information concerning subsequent events~~
- ~~Communications with regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices~~
- ~~Plans or intentions that may affect the carrying value or classification of assets or liabilities~~
- ~~Disclosure of compensating balance or other arrangements involving restrictions on cash balances, and disclosure of line of credit or similar arrangements~~
- ~~Reduction of excess or obsolete inventories to net realizable value~~
- ~~Satisfactory title to assets, liens on assets, and assets pledged as collateral~~
- ~~Other liabilities and gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450 (Contingencies)~~
- ~~Unasserted claims or assessments that the client's lawyer has advised are probable of assertion and there is a reasonable possibility of an unfavorable outcome in accordance with FASB ASC 450 (Contingencies)~~

- Management's approval and adoption of audit adjustments

When the auditor is engaged to perform a *single audit*, the client representation letter should also include the following matters:

- Assistance provided by federal agencies in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations
- Compliance with grant contract requirements and laws and regulations

#### **4.6.6.2 Disclosures of Related-Party Transactions**

In a school district audit, related parties include board members, administrative officials (i.e., school superintendent, director of finance, etc.), and the immediate families of both. The primary accounting and auditing focus for related parties is adequacy of presentation and disclosure in the financial statements. FASB ASC 850-10-50 (Related Party Disclosures) requires that the following information be disclosed for material related party transactions:

- The nature of relationship(s)
- A description of the transactions including transactions to which no amount or nominal amounts were ascribed and other information considered necessary to understand the effects of the transaction
- The dollar amounts of transactions for the period and the effects of any change from that used in the preceding period in the method of establishing the terms
- Amounts due from or to related parties as of the balance sheet date and, if not apparent, the terms and manner of settlement

To determine the adequacy of presentation and disclosure of related party transactions in the financial statements, audit procedures are performed throughout the audit. During audit planning, known related parties should be identified so that audit staff may be aware of

them throughout the audit fieldwork. Related parties may be identified from inquiry of government officials, review of organizational charts and from prior year work papers, minutes, contracts, agreements, etc. Whether to obtain representations from board members and management about the existence of related party transactions in which they may have engaged during the period may be considered. At the end of the audit, the auditor should decide whether the results of procedures performed revealed any related party transactions that should be disclosed in the financial statements.

TEC 11.201(e) (added by [HB 189](#), passed by the 80<sup>th</sup> Legislature) prohibits the superintendent of a school district from receiving any financial benefit for personal services performed for any business entity that conducts or solicits business with the district. The legislation requires that any financial benefit received by the superintendent for performing personal services for any other entity, including a school district, open enrollment charter school, regional education service center, or public or private institution of higher education, be approved by the board of trustees on a case-by-case basis in an open meeting. The law applies only to a contract between a superintendent and a business entity that is entered into on or after May 15, 2007.

Refer also to state regulations regarding nepotism and pecuniary interest in the State Regulations section of this module and the Financial Accounting and Reporting module.

### 4.6.6.3 Going-Concern Considerations

GAAS requires the auditor to evaluate whether there is substantial doubt about the school district's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited. The auditor's evaluation is based on knowledge of conditions or events identified by audit procedures performed throughout fieldwork. AU section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* provides examples of auditing procedures that may identify such conditions and events as follows:

- Analytical procedures
- Review of subsequent events
- Review of compliance with the terms of debt, grant and loan agreements
- Reading of minutes of board meetings

- Inquiry of the school district’s legal counsel about litigation, claims, and assessments
- Confirmation with related and third parties of the details of arrangements to provide or maintain financial support

If substantial doubt about the school district’s ability to continue as a going concern exists, the auditor should obtain information about management’s plans to mitigate the effect of such conditions or events and assess the likelihood that such plans will be effective. The auditor should also obtain management’s estimate of the number of days the school district would be able to operate on fund balance. If there is substantial doubt about the school district’s ability to continue as a going concern, the auditor should consider the adequacy of disclosure in the financial statements and include an explanatory paragraph (following the opinion paragraph) in the audit report stating the auditor’s conclusion.

GASB Statement No. 56, *Codification of the Accounting and Financial Reporting—Guidance Contained in the AICPA Statements on Auditing Standards*, issued in March 2009, also addresses going concern issues.

#### 4.6.6.4 Communicating with Those Charged with Governance

AU section 325, *Communicating Internal Control Related Matters Identified in an Audit*, requires the auditor to communicate all control deficiencies that are evaluated as significant deficiencies and material weaknesses. If these were reported in previous audits and have not been corrected, they must be communicated again. If management and those charged with governance have made a conscious decision to accept the degree of risk because of cost or other factors, the auditor is still required to communicate the significant deficiencies and material weaknesses. This communication should be issued no later than 60 days after the report release date.

The auditor should not issue a written communication stating that no significant deficiencies were identified.

A copy of all written communications provided to school districts regarding significant deficiencies and material weaknesses must be provided to TEA along with the district’s response if applicable. This is also required for any management letters issued.

AU 380, *The Auditor’s Communication with Those Charged with Governance*, requires the auditor to communicate certain significant and relevant financial statement audit related matters orally or in writing to those charged with governance of the entity. Those charged with governance are considered to be those responsible for overseeing the strategic direction of the district and obligations related to the accountability of the entity. Specifically, the auditor is required to communicate:

- the auditor’s responsibilities under GAAS
- scope and timing of audit

- significant audit findings

#### 4.6.6.5 Subsequent Events

Subsequent events take place after the balance sheet date but before the auditor's reports have been issued. Subsequent events should be disclosed in the financial statements if they are of such a nature that their absence would cause the financial statements to be misleading. Examples of subsequent events include the settlement of a lawsuit subsequent to the balance sheet date that was caused in the period being reported on or the issuance or defeasance of debt. Procedures which may be performed to determine the existence of subsequent events include:

- Inquiring of school district officials about the existence of material subsequent events
- Reading the board minutes for meetings held since the financial statement date
- Inquiring of legal counsel
- Reviewing subsequent cash receipt and disbursements journals and journal entries
- Reading capital and operating budgets for the following year
- Reviewing the management's discussion and analysis (MD&A) of conditions expected to have a significant effect on future years
- Reading articles published in paper or electronic form relating to facts and circumstances that may necessitate adjustments to or disclosure in the financial statements

#### 4.6.6.6 Analytical Procedures

The auditor should perform a final analytical review of the financial statements to assess the conclusions reached and evaluate the overall financial statement presentation. The auditor should also evaluate whether there are indications of a previously unrecognized risk of material misstatement due to fraud.

#### 4.6.6.7 Request Attorneys' Letters

~~AU Section 337—*Inquiry of a Client's Lawyer Concerning Litigation, Claims and Assessments* requires a letter of audit inquiry to the client's attorney as the primary means of obtaining corroboration of information furnished by management concerning litigation, claims, and assessments. Letters should be sent to the district's inside legal counsel and outside attorneys. Outside attorneys who provided services to the entity may be identified in legal files and invoices and by inquiry of governmental officials.~~

The matters to be included in a letter of audit inquiry include the following:

- ~~• Identification of the school district and date of audit~~
  
- ~~• Request by management that the attorney provide a list of pending or threatened litigation, claims and assessments for which the attorney has been engaged and has devoted substantial attention in the form of legal representation and include the following:
  - ~~— The nature of the pending or threatened litigation~~
  
  - ~~— The progress of the matter to date~~
  
  - ~~— The response which is being made or which will be made to the matter~~
  
  - ~~— An evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss~~~~
  
- ~~• List prepared by management of any unasserted claims and assessments management considers to be probable of assertion and, if asserted would have at least a reasonable possibility of an unfavorable outcome, with respect to which the lawyer has been engaged and to which he has devoted substantive attention on behalf of the district~~
  
- ~~• A statement by the district that the district understands that the attorney has formed a professional conclusion, and will advise and consult with the district concerning questions of disclosure and the applicable requirements of FASB ASC 450—(Contingencies) and a request that the attorney confirm this understanding to the auditors~~
  
- ~~• A request that the attorney specifically identify the nature of and reasons for any limitations on the response~~

The letter should request that the attorney respond as of a date reasonably close to the end of the audit fieldwork or the date of the report so that response will not have to be updated. The request should also specify a materiality limit so that the attorney knows which items are considered material for purposes of the response.

Once responses are received, they should be reviewed to ensure that all requested information is included. The response should also be evaluated carefully to determine whether it is clear regarding probable or remote outcomes of individual litigation, since the expected outcome is the determining factor for the need to accrue or disclose a loss contingency.

A sample of an attorney's letter is included in [Appendix 4](#).

#### **4.6.6.8 Misstatements and Audit Adjustments**

The auditor should evaluate any misstatements and audit adjustments for each opinion unit. In addition, the auditor should review any omitted required note disclosures. A final review of the effect of any audit adjustments on major funds should be performed.

Items the auditor should consider in addition to quantitative matters for materiality include:

- Potential effect on trends

- Potential effect on compliance with legal and contractual provisions

- Significance of the financial statement element

- Possibility that an immaterial current year effect may become material in future years

- Sensitivity of the misstatement, such as implications of fraud, possible illegal acts, or conflict of interest

- Management's motivation, such as an unwillingness to correct weaknesses in financial reporting

- Significance related to politically sensitive matters or known user needs

#### **4.6.6.9 Audit Documentation**

AU section 339, *Audit Documentation*, requires that the auditor's report not be dated earlier than the date on which the auditor obtained sufficient appropriate audit evidence to support

~~the opinion on the financial statements. In addition, audit documentation is required to be retained for a minimum of 5 years from the audit report release date. Auditors are required to complete audit documentation within 60 days of the audit report release date.~~

~~The auditor should document audit findings or issues that are significant, actions taken to address them, and the basis for the final conclusions reached.~~

## **4.6.7 Management Communications**

~~SAS No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, was issued in October 2008, and superseded SAS No. 112, *of the same name*. It is effective for school district fiscal year 2009-10.~~

### SAS 112

~~SAS 112 required auditors to evaluate any control deficiencies and determine whether they were significant deficiencies or material weaknesses. In addition, any identified deficiencies had to be communicated in writing to district management and those charged with governance. If the deficiencies were reported in previous years, they had to be communicated until they were remediated.~~

~~A control deficiency existed when the control didn't allow the district to prevent or detect misstatements timely in the normal course of their duties. A significant deficiency existed when there was more than a remote likelihood that a misstatement that was more than inconsequential would not be prevented. A material weakness existed when there was a more than remote likelihood that a material misstatement would not be prevented.~~

### SAS 115

~~SAS 115 was issued in order to align terminology with SSAE No. 15, which aligned terminology with PCAOB Auditing Standard No. 5. SAS 115 contains the following revised definitions:~~

~~Deficiency in internal control—it exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.~~

~~Material weakness—a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.~~

~~Significant deficiency—a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.~~

SAS 115 lists the following indicators of material weaknesses in internal control:

fraud on the part of senior management, whether or not material;

restatement of previously issued financial statements to reflect the correction of a material misstatement due to error or fraud;

identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control; or

ineffective oversight of the entity's financial reporting and internal control by those charged with governance.

The communication preferably should be made by the report release date, but no later than 60 days following the report release date. The auditor is not advised to issue a written communication stating that no significant deficiencies were identified due to the potential for misinterpretation. Although management may have made a conscious decision to accept the level of risk for cost or other considerations, the auditor is responsible for communicating significant deficiencies or material weaknesses regardless of management decisions.

[Government Auditing Standards](#) for 2007 and OMB Circular A-133 have been updated to conform to SAS No. 112 regarding the terminology used for findings. Government Auditing Standards have also been updated to conform to SAS No. 115; however, OMB Circular A-133 has not yet been updated for SAS 115 and should not be modified until OMB issues guidance.

If auditors issue a management letter, the management letter should be referred to in the reports.

## 4.6.8 Auditor's Reports

When an auditor performs an audit in accordance with [Government Auditing Standards](#), the auditor must prepare the report titled **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards**.

### 4.6.8.1 Report on Basic Financial Statements

The report on the general purpose financial statements and supplementary schedule of expenditures of federal awards needs to mention that the audit was performed in

~~accordance with generally accepted auditing standards and [Government Auditing Standards](#). This report will be a part of the annual financial and compliance report prepared by the school district. Refer to the Reporting section of the Financial Accounting and Reporting module of the *Resource Guide* for an example of an annual financial and compliance report.~~

#### ~~4.6.8.2 Report on Compliance and on Internal Control~~

~~This report is required by the [Yellow Book](#) (GAS) and should be prepared any time the auditor performs an audit in accordance with GAS. The auditing standards in the Yellow Book are applicable to annual audits of all school districts, regardless of the amount of expenditures of federal financial awards.~~

## 4.7 Single Audit

### 4.7.1 Introduction to the Single Audit

The *single audit* applies to non-federal entities that expend \$500,000 or more in a year in federal awards. The *single audit* must be conducted in accordance with United States Office of Management and Budget, [OMB Circular A-133](#) and the OMB A-133 [Compliance Supplement](#). All school districts that expend federal financial assistance should consider whether an audit in accordance with the Single Audit Act Amendments of 1996 is required.

Standards for testing and reporting on compliance with laws and regulations, [Government Auditing Standards](#), the Single Audit Act Amendments of 1996 and Office of Management and Budget (OMB) Circular A-133 were established by SAS No. 74. SAS 74 was superseded by SAS No. 117 issued in December 2009, and effective for audits of fiscal periods ending on or after June 15, 2010. The auditor should be familiar with SAS No. 117 in addition to the Single Audit Act Amendments of 1996, OMB Circular A-133 and the current OMB Circular A-133 Compliance Supplement, normally released in March, and *Government Auditing Standards* before commencing a *single audit* of a school district. The *Government Auditing Standards* were discussed in more detail in the Comparison of Generally Accepted Auditing Standards and Government Auditing Standards section of this module. This section will concentrate on [OMB Circular A-133](#), the Single Audit Act and SAS No. 117.

### 4.7.2 The Single Audit Act Compliance Supplement

The Single Audit Act Amendments of 1996 (the Act) established requirements for audits of financial statements of state and local governments and for testing and reporting on internal controls and compliance with laws and regulations relevant to federal financial assistance programs.

The Single Audit Act, passed by Congress in 1984, as amended in 1996, was a response by the federal government to the rapidly growing number of programs and amount of funds granted to state and local governments. The Act standardized many audit procedures and required that the *single audit* report be accepted by all federal agencies. After passage of the Act, OMB issued Circular A-128 that was rescinded and replaced in June, 1997 by [OMB Circular A-133](#), *Audits of States, Local Governments, and Non-Profit Organizations*, to implement the Single Audit Act amendments of 1996. As part of OMB Circular A-133, the OMB issued the United States Office of Management and Budget, OMB Circular A-

133 [Compliance Supplement](#), which is normally updated each March. The Compliance Supplement contains the legal and regulatory requirements, along with suggested audit procedures, for the most significant federal financial assistance programs. Auditors will also need to review specific compliance requirements explained in other relevant documents in preparing an audit program.

To further standardize governmental audits, the U.S. General Accounting Office (GAO) has issued [Government Auditing Standards](#) (GAS) in an attempt to bring uniformity to audits of government programs, activities and functions.

Additional audit guidance was issued by the American Institute of Certified Public Accountants (AICPA) in *Statement on Auditing Standards* (SAS) No. 74, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*. For fiscal periods ending on or after June 15, 2010, SAS No. 117, *Compliance Audits* supersedes SAS No. 74. It applies to Single Audits and all compliance audits in accordance with GAAS and/or GAGAS, and/or to governmental audits requiring the auditor to express an opinion on compliance.

SAS 117 was developed in response to the recommendations of a federal study on single-audit quality. It requires auditors to adapt and apply most of the GAS used for financial audits to compliance audits, and provides guidance on how to:

- Establish materiality levels
- Identify government programs and applicable compliance requirements
- Perform risk assessment procedures
- Assess the risk of material noncompliance
- Perform additional audit procedures in response to assessed risks
- Evaluate the sufficiency and appropriateness of audit evidence
- Report and document

It also discusses representation letters and auditing standards that are not applicable to compliance audits

The Single Audit Act and [OMB Circular A-133](#) require school districts that expend total federal financial assistance (FFA) equal to or in excess of \$500,000 in a fiscal year to have an audit performed in accordance with the Act. School districts expending less than \$500,000 in federal financial assistance in a fiscal year are not required to have either an audit under the Single Audit Act and OMB Circular A-133 or a *program audit*, however, they must maintain records to support federal financial assistance programs and must have a financial audit performed under generally accepted auditing standards (GAAS) and [Government Auditing Standards](#) (GAS), also referred to as the Yellow Book.

### 4.7.2.1 Components of a Single Audit

A *single audit* has two main components:

- ~~Audit of the financial statements~~
- ~~Audit of federal financial assistance~~

The *financial statement* audit is performed in accordance with GAAS and the financial audit standards in GAS. A financial statement audit in accordance with GAS results in the auditor's report on:

- ~~Financial statements~~
- ~~Compliance with applicable laws and regulations~~
- ~~Internal control based on the audit of the financial statements~~

In an audit of *federal financial assistance*, [OMB Circular A-133](#) requires the auditor to issue reports on:

- ~~An opinion on financial statements for the federal program(s)~~
- ~~Compliance with laws and regulations that have a direct and material effect on the federal program(s)~~
- ~~Internal control related to the federal program(s)~~

These reports are issued in addition to the reports required by GAS.

#### **4.7.2.2 Key Concepts in Auditing Federal Financial Assistance**

Several concepts are important in the audit of FFA. Exactly what constitutes FFA and the nature of determination are vital.

#### ***Composition of Federal Financial Assistance***

Federal Financial Assistance (FFA) is defined under [OMB Circular A-133](#) as cash and non-cash assistance received directly or indirectly by the recipient (school district). Indirect receipts represent assistance passed through the state or other government agencies (cities and counties). FFA includes:

- Grants contracts and cooperative agreements
- Loans and loan guarantees
- Property and other non-cash assistance (including commodities provided by the U.S. Department of Agriculture)
- Interest subsidies and insurance
- Direct appropriations
- Other assistance

Federal financial assistance does not include reimbursement for services rendered to individuals, as described in [OMB Circular A-133](#). Additionally, the terms federal award and federal financial assistance are not applicable to procurement contracts, under grants or contracts, used to buy goods or services from vendors. Any audits of such vendors are covered by the terms and conditions of such contracts. Furthermore, contracts to operate Federal Government owned, contractor operated facilities (GOCOs) are excluded from the requirements of the Single Audit Act.

### ***Major Program Determination***

The classification of a program as major is based on a risk-based approach. Major program means a Federal program determined by the auditor to be a major program in accordance with the major program determination section of the Single Audit Act or a program identified as a major program by a Federal agency or pass through entity in accordance with the Single Audit Act.

The first step in classifying federal programs as major programs involves identification of programs under two categories:

- Type A

- Type B

Type A programs are defined as Federal programs with Federal awards expended during the audit period exceeding the larger of:

- \$300,000 or three percent (.03) of total Federal awards expended in the case of an auditee for which total Federal awards expended equal or exceed \$300,000 but are less than or equal to \$100 million
- \$3 million or three tenths of one percent (.003) of total Federal awards expended in the case of an auditee for which total Federal awards expended exceed \$100 million but are less than or equal to \$10 billion.
- \$30 million or 15 hundredths of one percent (.0015) of total Federal awards expended in the case of an auditee for which total Federal awards expended exceed \$10 billion.

Federal programs not labeled Type A shall be labeled Type B programs.

The second step in the determination of major programs involves identifying Type A programs that are low risk. In order to be eligible for identification as low risk, the federal program must have been audited as a major program in at least one of the two most recent audit periods. Also, in the most recent audit period, there must not be certain material or significant kinds of audit findings described in the Single Audit Act, such as material weaknesses in internal controls over federal programs or material instances of noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program. Based on the auditor's judgment, the Single Audit Act allows an auditor to classify as low risk an auditee that had audit findings in the prior period after considering the effect that certain factors have on internal control, including changes in personnel and systems affecting major federal programs.

The third step in the determination of major programs involves identification of Type B programs which are high risk. The Single Audit Act allows as one option an audit as a major federal program of one high risk Type B program for each Type A program identified as low risk. In performing a risk assessment of Type B federal programs, the auditor may use professional judgment and consider certain factors provided in the Single Audit Act, including:

- Current and prior audit experience
- Oversight by federal agencies and pass-through agencies
- Inherent risk of the federal program

The fourth step in the determination of major programs involves an audit of major federal programs according to three primary criteria. The three primary criteria are as follows:

- All Type A programs, except under certain conditions those identified as low risk
- Type B programs identified as high risk
- Additional programs necessary to comply with the percentage coverage rule

An element in the determination of major programs provisions of the Single Audit Act involves an audit of a sufficient number of federal programs according to the percentage of coverage rule. The auditor shall audit as major programs Federal programs with Federal awards expended that, in the aggregate, encompass at least 50 percent of total Federal awards expended. If the auditee meets the criteria in the Single Audit Act for a low risk auditee, the auditor need only audit as major programs Federal programs with Federal awards expended that, in the aggregate, encompass at least 25 percent of total Federal awards expended.

An additional element in the determination of major programs provisions of the Single Audit Act involves documentation of risk in the working papers. The auditor shall document in the working papers the risk analysis process used in determining major programs.

Also, another element in the determination of major programs provisions of the Single Audit Act involves the appropriate application of auditor's judgment. When the major program determination was performed and documented in accordance with this part, the auditor's judgment in applying the risk-based approach to determine major programs shall be presumed correct. Challenges by Federal agencies, TEA and other pass-through entities shall only be for clearly improper use of the guidance in this part. However, Federal agencies, TEA and other pass-through entities may provide auditors guidance about the risk of a particular Federal program and the auditor shall consider this guidance in determining major programs in audits not yet completed.

Lastly, another element in the determination of major programs provisions of the Single Audit Act involves deviation from use of risk criteria. For first year audits, the auditor may elect to determine major programs as all Type A programs plus any Type B programs as necessary to meet the percentage of coverage rule. Under this option, the auditor would not be required to perform the procedures discussed in paragraphs (c), (d), and (e) of this section. A first year audit is the first year the entity is audited under this part or the first year of a change of auditors. To ensure that a frequent change of auditors would not preclude audit of high risk Type B programs, this election for first year audits may not be used by an auditee more than once in every three years.

## ***Compliance Requirements***

In addition to the testing for compliance with laws and regulations required for financial audits, there are two additional categories which must be addressed for the *single audit*. Under OMB A-133 compliance testing must be performed for general compliance requirements, and special tests and provisions of individual federal programs. Use of the OMB A-133 Compliance Supplement is mandatory. The Compliance Supplement provides suggested audit procedures for performing tests. The compliance requirements are detailed later in this section. Specific requirements related to the American Recovery Reinvestment Act (ARRA) of 2009 are discussed in section 4.7.6.

### **4.7.2.3 Single Audit Planning**

The Single Audit Act, [OMB Circular A-133](#), the OMB Circular A-133 [Compliance Supplement](#), and GAS establish standards for audits to satisfy federal program managers and other users of the Schedule of Federal Financial Assistance and related auditor's reports. In planning a *single audit*, auditors must consider several matters in addition to those considered for an audit conducted in accordance with GAAS. Refer to the Financial Statement Audit section of this module for a discussion of matters to be considered during the planning stage of an audit. Additional matters which should be considered for *single audit* planning are:

- ***Cognizant Agency***—OMB Circular A-133 defines the cognizant agency as the agency assigned to carry out the responsibilities concerning *single audits* of governments. For Texas school districts the cognizant agency is TEA.
- ***Generally Accepted Government Auditing Standards***—The Single Audit Act and OMB Circular A-133 require the audit to be conducted in accordance with GAGAS.

- *Determination of the Audit Period*—Audits of FFA programs are required annually. A *single audit* should cover the school district’s fiscal year, not the grant year or the period of the program being funded. This could mean that one program would be subject to audit in more than one fiscal year.
- *Joint Audit Considerations*—The audits of some school districts may be performed by more than one auditor to meet the requirements of the Single Audit Act relating to participation of small, minority-owned or woman-owned independent accounting firms. There are several considerations in dealing with this issue and the auditor should refer to guidance in the AICPA’s *Professional Standards*, volume 1, AU section 543, “Part of Audit Made by Other Independent Auditors.”
- *Engagement Letters*—The terms, scope and conditions agreed upon for the audit are documented in an engagement letter. The auditor could issue one engagement letter to cover both the *financial statement audit* and the *single audit* as long as the terms of the engagement are clearly explained. Refer to the sample engagement letter in [Appendix 2](#).
- *Subrecipients and Grantor Monitoring*—Subgrants pass funds received from the grantor to other entities which are called subrecipients. When the school district is a subgrantor, it must be monitored as such. When school districts are subrecipients, i.e., grant funds are received from another school district, they are responsible for a *single audit* as if the funds were received directly from the federal or state government agency. The Compliance Supplement contains specific procedures for testing of subrecipients. Under the Act and OMB Circular A-133, when a recipient passes funds to one or more subrecipients, the primary recipient is responsible for determining that funds were expended in accordance with applicable laws and regulations. In planning the *single audit*, the auditor must consider which procedures are necessary to determine if recipients have adequately discharged their responsibilities in relation to subrecipient monitoring.

#### 4.7.2.4 Materiality

Materiality should be determined separately for each major program for purposes of testing compliance with specific requirements. For general compliance requirements that are identifiable and quantifiable by program, materiality should be considered at the program level. For general requirements that are not quantifiable, materiality is generally considered at the general purpose financial statement level.

The auditor’s opinion on compliance with specific requirements addresses each major program and all the programs grouped as a cluster. Therefore, the materiality of instances

of noncompliance must be considered is in relation to a type of compliance requirement for a major program or an audit objective identified in the Compliance Supplement within the context of the individual program and all programs grouped as a cluster.

The OMB Circular A-133 [Compliance Supplement](#) identifies several programs with different CFDA numbers that are defined as clusters of programs.

#### 4.7.2.5 Other Planning Considerations

- *Identification of FFA Programs*—The responsibility for identifying all FFA programs and preparing the Schedule of Expenditures of Federal Awards is the school district's and is required by the Single Audit Act. This schedule should include all federal financial assistance programs administered by the recipient and pass-through amounts to other entities.
- *Internal Control*—The auditor should consider the internal control used in administering FFA and identify potential issues that could affect the nature, timing and extent of audit work to be performed. The auditor shall perform procedures to obtain an understanding of internal control over compliance for federal programs sufficient to support a low assessed level of control risk for major programs.
- *General Compliance Requirements*—The auditor should understand the applicable general compliance requirements so that audit procedures for testing compliance can be planned.
- *Specific Compliance Requirements*—The auditor should understand the specific compliance requirements applicable to each of the school district's major FFA programs so that the nature, timing and extent of testing to be performed can be planned.
- *Findings and Questioned Costs*—The Single Audit Act specifies several kinds of criteria for noncompliance and questioned costs that must be reported in the Schedule of Findings and Questioned Costs. The Single Audit Act requires reporting findings and questioned costs as follows:
  - Significant deficiencies in internal control over major programs and identify those significant deficiencies that are considered individually or collectively as material weaknesses

- ~~— Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program~~
- ~~— Known questioned costs which are greater than \$10,000 for a type of compliance requirement for a major program~~
- ~~— Known questioned costs when likely questioned costs are greater than \$10,000 for a type of compliance requirement for a major program~~
- ~~— Known questioned costs which are greater than \$10,000 for a Federal program which is not audited as a major program~~
- ~~— The circumstances concerning why the auditor's report on compliance for major programs is other than an unqualified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for Federal awards~~
- ~~— Known fraud affecting a Federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards~~
- ~~— Instances where the results of audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding~~
- *Audit Finding Detail*— Audit findings shall be presented in sufficient detail for the auditee to prepare a corrective action plan and take corrective action and for Federal agencies and pass-through entities to arrive at a management decision. The following specific information shall be included, as applicable, in audit findings:
  - ~~— Federal program and specific Federal award identification including the CFDA title and number, Federal award number and year, name of Federal agency, and name of the applicable pass-through entity~~
  - ~~— The criteria or specific requirement upon which the audit finding is based, including statutory, regulatory, or other citation~~
  - ~~— The condition found, including facts that support the deficiency identified in the audit finding~~
  - ~~— Identification of questioned costs and how they were computed. Information to provide proper perspective for judging the prevalence and consequences of the audit findings, such as whether the audit findings represent an isolated instance or a systemic problem. Where appropriate, instances identified shall be related to the universe and the number of cases examined and quantified in terms of dollar value.~~

- The possible asserted effect to provide sufficient information to the auditee and Federal agency, or pass through entity in the case of a subrecipient, to permit them to determine the cause and effect to facilitate prompt and proper corrective action
- Recommendations to prevent future occurrences of the deficiency identified in the audit finding
- Views of responsible officials of the auditee when there is disagreement with the audit findings, to the extent practical
- Reference numbers. Each audit finding in the schedule of findings and questioned costs shall include a reference number to allow for easy referencing of the audit findings during follow-up.

### **4.7.3 Internal Control Testing under the Single Audit Act**

The Single Audit Act requires the auditor to determine and report whether the entity has internal control systems to provide reasonable assurance that it is managing federal financial assistance programs in compliance with applicable laws and regulations. Subpart E § 500(c) of [OMB Circular A-133](#) expands on this requirement:

- The auditor must plan the testing of internal control systems over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program.
- When internal control over some or all of the compliance requirements for a major program are likely to be ineffective in preventing or detecting noncompliance, the auditor should report a significant deficiency in accordance with § 510, assess the related control risk at maximum, and consider whether additional compliance tests are required because of ineffective internal control.

#### **4.7.3.1 Obtain an Understanding of the System of Internal Control**

In satisfying the internal control provisions of the Single Audit Act and [OMB Circular A-133](#), the auditor should obtain an understanding of each of the five components of internal

control and determine through performing appropriate procedures whether they have been placed in operation. This understanding should be sufficient to plan the audit of compliance and enables the auditor to:

- Identify the types of potential material noncompliance
- Consider matters that affect the risk of material noncompliance
- Design effective tests of compliance with requirements applicable to major federal financial assistance programs

*The auditor should note that tests of controls are mandatory, whether or not controls are to be relied upon for audit purposes.*

#### **4.7.3.2 Risk Assessment for Major Federal Financial Assistance**

After the auditor understands the internal control, risk should be assessed. Assessing risk contributes to the auditor's evaluation of the risk that material noncompliance exists in a major federal financial assistance program. The processes of assessing risk and assessing inherent risk provide evidential matter about the risk that such noncompliance may exist. The auditor uses this evidential matter as part of the reasonable basis for the opinion on compliance.

According to [OMB Circular A-133](#), the auditor is not expected to perform risk assessments on relatively small Federal programs; therefore, the auditor is only required to perform risk assessments on:

- “Type A” programs
- “Type B” programs that exceed the larger of:
  - \$100,000 or three tenths of one percent (.003) of total Federal awards expended when the auditee has less than or equal to \$100 million in total Federal awards expended.
  - \$300,000 or three hundredths of one percent (.0003) of total Federal awards expended when the auditee has more than \$100 million in total Federal awards expended.

### 4.7.3.3 Test Controls and Compliance

[OMB Circular A-133](#) requires performing tests of controls to evaluate the effectiveness of the design and operation of the policies and procedures in preventing or detecting material noncompliance. Procedures performed to obtain an understanding of internal control may be considered tests of controls if they provide evidential matter about the effectiveness of the design and operation of the control activities.

Testing internal controls for all major programs is important. Each of five components of internal control (the control environment, the risk assessment, control activities, information and communication, and monitoring) for major programs must be understood by the auditor. In obtaining this understanding the auditor's tests of controls assist the auditor to determine the substantive audit procedures to support the opinion on compliance.

Transactions selected to test controls used in administering federal financial assistance can also be tested for specific and general compliance requirements and may also serve as a basis for testing financial statement amounts. This process is referred to as "Dual Purpose Testing." The compliance testing referred to herein is in compliance with general requirements and specific requirements testing discussed in more detail later in this section.

### 4.7.3.4 General Compliance Requirements

General compliance requirements involve significant national policy. Failure to comply with these requirements may have a material impact on both the school district's financial statements and the schedule of federal financial assistance. The primary source for compliance requirements is the [Compliance Supplement](#) and its use in the Single Audit is mandatory. The Compliance Supplement was issued to assist auditors in performing *single audits* and supplements [OMB Circular A-133](#). It describes general compliance requirements and compliance requirements that are specific to many of the larger FFA programs. It also contains suggested procedures for testing compliance with the specific requirements for many of the largest programs. The Compliance Supplement, which provides guidance for implementation of OMB Circular A-133, identifies the following requirements as *general requirements* that must be tested as part of the *single audit* process:

- *Activities Allowed or Unallowed*—Federal awards should only be expended for allowable activities.

- ~~*Allowable Costs/Cost Principles*—2 CFR 255 (OMB A 87), *Cost Principles for State and Local Governments*, establishes principles and standards for determining costs—applicable to grants.~~
- ~~*Cash Management*—Grantee financial management systems should include procedures to minimize the time elapsed between the transfer of funds from the grantor and the disbursement of funds by the grantee.~~
- ~~*Davis-Bacon Act*—Construction contracts/programs are regulated by the provisions of this act which in general requires the wages of laborers and mechanics employed by contractors of federally funded projects to be no lower than the prevailing regional wage rate as established by the secretary of labor.~~
- ~~*Eligibility*—Specific criteria should be used for determining the individuals, groups of individuals, or subrecipients that can participate in the program and the amounts for which they qualify.~~
- ~~*Equipment and Real Property Management*—A District shall use, manage, and dispose of equipment acquired under a Federal Grant in accordance with State laws and procedures. Real property shall be used for the originally authorized purpose as long as needed for that purpose. These requirements can be found in OMB Circular A 110, A 102 Common Rule, Federal awarding agency regulations, and the terms and conditions of the awards.~~
- ~~*Matching, Level of Effort, Earmarking*—Grant recipients are required to provide contributions (usually non-Federal) of a specified amount or percentage to match Federal awards. These requirements specify the level of services and expenditures that are to be provided and maintained from period to period, and state that Federal funds are to supplement and not supplant non-federal funding of services.~~
- ~~*Period of Availability of Federal Funds*—Federal awards may specify a time during which the entity may use the Federal funds. If authorized by the Federal program, unobligated balances may be carried over and charged for obligations of the subsequent funding period.~~
- ~~*Procurement and Suspension and Debarment*—Grantees shall use the same policies and procedures used for procurements from non-Federal funds. Also, Districts are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred.~~

- *Program Income*—Is defined as gross income received that is directly generated by the federally funded project during the grant period. This income may be used in one of three methods: deducted from outlays, added to the project budget, or used to meet matching requirements.
- *Real Property Acquisition and Relocation Assistance*—The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, provides for uniform and equitable treatment of persons displaced by federally assisted programs from their homes, businesses, or farms.
- *Reporting*—Recipients should use the standard financial reporting forms or such other forms as may be authorized by OMB. The reporting requirements for subrecipients are as specified by the pass-through entity.
- *Subrecipient Monitoring*—Pass-through entities are responsible for various monitoring activities. For example, these activities include reviewing reports that are submitted, performing on-site visits to review financial and programmatic records and observing operations.
- *Special Tests and Provisions*—Any additional compliance requirements which are not based in law or regulation (e.g., were agreed to as part of audit resolution of prior audit findings) which could be material to a major program should be identified and addressed under this requirement.

#### 4.7.3.5 General Compliance Requirements Testing

Suggested audit procedures for testing compliance with these general requirements are included in the [Compliance Supplement](#). Use of the Compliance Supplement is mandatory. Testing of certain general requirements may not be required for requirements that do not have a direct and material effect on the financial statements (e.g., if there are no construction-type grants, Davis-Bacon Act compliance testing would not be applicable). *The auditor should test compliance with the applicable general requirements regardless of number and amount of expenditures under major programs.* Determining the extent of tests of compliance with the general compliance requirements is a matter of professional judgment.

When instances of noncompliance are identified and can be quantified, materiality is generally assessed at the program level to which the noncompliance applies. However, when the noncompliance is not quantifiable, materiality is generally assessed at the basic financial statement level.

Performance of procedures to test general compliance requirements are not sufficient for the auditor to opine on compliance. Therefore, the report issued relating to general compliance procedures expresses positive assurance on the items tested for compliance and negative assurance on items not tested.

#### 4.7.4 Specific Compliance Requirements

Specific program requirements are those that address either the key criteria and qualifications or objectives of a FFA program. The auditor should understand the specific requirements applicable to each major program. The auditor's report on major program compliance should address certain matters. The [Compliance Supplement](#) is the major source of specific compliance requirements, in addition to program applications, contracts and agreements with grantor agencies and oversight organizations. It describes requirements of many of the large FFA programs and identifies procedures for testing compliance with such requirements. If programs are not covered in the Compliance Supplement, information may be found in the *Catalogue of Federal Domestic Assistance* (CFDA). The CFDA contains information concerning laws and regulations applicable to each program. Additional guidance may be also available from program sponsors. Specific compliance requirements usually relate to:

- *Activities allowed or unallowed*
- *Allowable costs/costs principles*
- *Cash management*
- *Davis Bacon Act*
- *Eligibility*
- *Equipment and real property management*
- *Matching, level of effort, and/or earmarking*
- *Period of availability of Federal funds*

- *Procurement and suspension and debarment*
- *Program income*
- *Real property acquisition and relocation assistance*
- *Reporting*
- *Subrecipient Monitoring*
- *Special tests and provisions*

Each of the above requirements is accompanied in the [Compliance Supplement](#) by suggested audit procedures that can be used to test compliance with laws and regulations. The procedures an auditor may use are not limited by those procedures enumerated in the OMB Circular A-133 Compliance Supplement. The auditor should use professional judgment in determining the nature, timing and extent of substantive tests of compliance with specific requirements. The independent auditor should not consider the OMB Circular A-133 *Compliance Supplement* to be a "safe harbor" for identifying the audit procedures to apply in a particular engagement.

#### **4.7.4.1 Specific Compliance Requirements Testing**

Auditors are required to perform procedures to test each requirement for each major program and issue an opinion based on that testing. In addition, if any transactions are selected from other federal programs, they are required to be tested for compliance with federal laws and regulations that apply to such transactions.

#### **4.7.4.2 Major Program Specific Compliance Requirements Testing**

To support the auditor's opinion on compliance with the specific requirements for each major program, auditors are required to test each requirement. The procedures to test each major program may specify that a representative sample of expenditures be tested for compliance with the specific requirements of that program. In determining the extent of

testing the auditor should assess audit risk and materiality at each major program level and not at the basic financial statement level or for major programs as a whole.

A representative number of transactions should be selected from each major FFA program and sample sizes should be sufficient to enable the auditor to express an opinion on compliance with specific compliance requirements relative to each major program. Professional judgment should be used in determining methods of sample selection.

In planning the extent of testing the auditor should consider:

- *Inherent risk* which is the risk that material noncompliance with requirements applicable to a major federal financial assistance program could occur, assuming there are no related internal control policies or procedures employed.
- *Control risk* which is the risk that material noncompliance could occur in a major federal financial assistance program and not be prevented or detected on a timely basis by the entity's internal control policies and procedures.
- *Detection risk* which is the risk that the an auditor's procedures will lead him or her to conclude that noncompliance that could be material to a major federal financial assistance program does not exist, when in fact, such noncompliance does exist.
- *Fraud risk* which is the risk that intentional material noncompliance with a major program's compliance requirements could occur.

All instances of noncompliance noted must be considered in light of two different materiality levels; first at the major program level, and second at the basic financial statement level. The impact of known and projected instances of noncompliance should be considered at both levels of materiality to determine if an audit report modification is necessary

## 4.7.5 Single Audit Reporting Requirements

The *single audit* requires several reports on compliance and internal control in addition to the reports required when audits are conducted in accordance with GAS and GAAS. Reports required are listed in the following table:

**Exhibit 3. Summary of Report Requirements**

Authoritative Literature	Type of Report		
	Basic	Basic + GAS	Basic + GAS + Single Audit
Generally Accepted Auditing Standards	Opinion (or disclaimer) on financial statements and schedule of expenditure of federal awards		
	Opinion (or disclaimer) on financial statements and schedule of expenditure of federal awards	Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements	
Single Audit Act ( <a href="#">OMB Circular A-133</a> )	Opinion (or disclaimer) on financial statements and schedule of expenditure of federal awards	Report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements	Report on internal control over compliance and compliance applicable to <i>each</i> major program  Schedule of findings and questioned costs

**4.7.5.1 Supplementary Schedule of Federal Financial Assistance**

The Single Audit Act and [OMB Circular A-133](#) require the auditor to report on the Schedule of Expenditures of Federal Awards (the Supplementary Schedule). This Supplemental Schedule, prepared by management, reports the total expenditures for each FFA program as identified in the CFDA. All programs should be included, cash and noncash.

The financial information included in the Supplementary Schedule should be based on the school district's fiscal year and should be derived from the school district's books and records from which the basic financial statements were prepared.

See the report example in the Financial Accounting and Reporting module for information to be included in the Supplementary Schedule.

#### **4.7.5.2 Single Audit Report on Internal Control and Compliance over Federal Financial Assistance**

The report on internal control and compliance over FFA should be consistent with the reporting requirements in the most recent Statements on Auditing Standards; however, this report *is required* for a *single audit*. The AICPA Audit Guide for Government Auditing Standards and Circular A-133 Audits recommends that the auditor report on the SEFA in the report on financial statements as supplementary information. The report should also refer to the schedule of findings and questioned costs and state that the report is intended for the use of federal awarding agencies and pass-through entities, if applicable, in addition to the standard terminology regarding certain parties.

#### **4.7.5.3 Findings**

All audit findings required to be reported under Circular A-133 are required to be included in the schedule of findings and questioned costs—a management letter cannot be used instead. Circular A-133 lists all items required to be included in the schedule and the elements necessary for each finding. If there were findings in the prior year, the auditee should prepare a schedule of prior audit findings.

#### **4.7.6 American Recovery Reinvestment Act (ARRA)**

For TEA-specific information related to the ARRA funds, please see the [TEA Stimulus web page](#).

The OMB A-133 March 2011 Compliance Supplement now provides ARRA-specific guidance. Please refer to the following:

- Module 1 FAR Appendices, Appendix 8.A, General Requirements for All Federal Programs
  - Appendix 8.A.4 D. Davis Bacon Act
  - Appendix 8.A.9 L. Procurement and Suspension and Debarment
  - Appendix 8.A.13 M. Subrecipient Monitoring
  - Appendix 8.A.14 N. Special Tests and Provisions.
- Module 1 FAR Appendices, Appendix 8.B, Matrix of Compliance Requirements
- Module 1 FAR Appendices, Appendix 8.C, Agency Program Requirements.

ARRA information is generally presented in bold type.

The Department of Education also has a separate web page related to the Recovery Act, at <http://www.ed.gov/recovery>

#### 4.7.6.1 Reporting under ARRA

Entities that receive ARRA funding in the form of grants, loans or cooperative agreements directly from the Federal government are required to report under Section 1512 of ARRA. OMB M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009* (June 22, 2009), provides guidance on how to do this. The OMB A-133 March 2011 Compliance Supplement clarified some related accrual versus cash basis reporting issues.

#### 4.7.6.2 Reporting under FFATA

For non-ARRA awards, ARRA Section 1512 (c) (4) requires reporting under the Federal Funding Accountability and Transparency Act (FFATA).

March 2011 Compliance Supplement addresses two FFATA reporting requirements that apply to TEA: recipient reporting of each first tier subaward obligating action of \$25,000 or more; and contractor reporting of each first tier subcontract award of \$25,000 or more in Federal funds. Effective 10-1-2010, every time a recipient (TEA) makes a new award of \$25,000 or more, it has to file a report. (If the subaward is made after 10-1-2010 out of funds awarded before that date, no report is required). Required data elements include the DUNS number, the CFDA number, and a new Federal Assistance Identification Number (FAIN).

FFATA reporting is required

- For each grant of \$25,000 or more to a subrecipient
- If that grant was assigned a **new** FAIN number (i.e. the entire grant number, not part of it, must be different)
- If the award was issued on October 1, 2010 or later by the Federal government
- and if the recipient (TEA) passed it through to subrecipients (an ISD that receives an award directly, is not a TEA subrecipient, and so no FFATA reporting is required).

It appears that the prime recipient may delegate some of its FFATA reporting duties to the subrecipient.



## ~~4.8 Accounting, Reporting and Disclosure Issues with Audit Implications~~

~~The following accounting, reporting and disclosure issues in Texas school districts may have various audit implications:~~

- ~~• Accrual of salaries for financial reporting purposes~~
- ~~• Impact of Year-round schools~~
- ~~• Accounting for commodities received~~
- ~~• Cooperatives and shared services arrangements~~
- ~~• Food service operations~~
- ~~• Accounting for compensated absences~~
- ~~• Accounting for self insurance~~
- ~~• Post-employment benefits other than pensions~~
- ~~• Arbitrage rebate calculations~~
- ~~• Activity fund classification~~
- ~~• Accounting for Foundation School Program issues~~
- ~~• Pension obligations~~

## **4.8.1 Accrual of Salaries and Related Benefits for Financial Reporting Purposes**

Effective August 31, 1994, school districts were no longer allowed to defer the recognition of those expenditures incurred during one fiscal year that relate primarily to the next fiscal year (e.g., salaries of teachers who begin work on August 15, 1994 will no longer be recorded as deferred expenditures in fiscal year 1993-94, and recorded as expenditures in the 1994-95 school year, but rather will be reflected as expenditures in the 1993-94 school year).

The calculation of accrued salaries, and related benefits, should be calculated as follows: (Number of days worked during the period ended August 31, 1994) divided by (Total number of days in the employee's contract) multiplied by the employee's contract salary. An example of this calculation for a an employee with a 183-day contract who earns \$30,000 a year and who worked 10 business days during the period from August 15, 1994, through August 31, 1994, would be as follows:

$$(\$30,000/183 \text{ days}) * 10 \text{ days} = \$1,639$$

The school district should ensure that the 1993/94 salary accrual includes \$1,639 of expenditures relating to this employee. A separate calculation is required for related benefits. The school district is required to perform this calculation for each class of employee that has a contract. The school district should recognize the effects that these accruals may have on [PEIMS](#) related reporting.

## **4.8.2 Impact of Year-Round Schools**

Many school districts have implemented year-round school calendars to various extents. School districts must ensure that they are properly accounting for the expenditures and revenues associated with year-round school programs. Of particular concern is the accounting for state revenues associated with the students that are involved in year-round schools.

### 4.8.3 Accounting for Commodities Received

Many school districts record the value of federal commodities received during the year as revenue and expenditures/expenses at the time of the receipt. School districts are required to conduct physical inventories of such commodities at least annually and record the value of commodities on hand as both inventory and deferred revenue at fiscal year end.

Examples of typical accounting entries associated with a federal commodities program are as follows:

Receipt of \$1,000 of federal commodities by a school district.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Expenditures/Expenses (Function Code 35)	\$1,000	
Revenues (Object Code 5923)		\$1,000

This entry reflects the value of the commodities received in the school district's general ledger.

Inventory of commodities is taken at year end with the value of such inventories calculated as \$300.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Commodities Inventory (Asset Code 1310)	\$300	
Expenditures/Expenses (Function Code 35)		\$300
Revenue (Object Code 5923)	\$300	
Deferred Revenue (Liability Code 2310)		\$300

This entry records the value of inventory on hand at year end, as well as reduces the revenues and expenditures/expenses for inventory which has not been used as of year end.

The following reconciliation process may be useful in proving the accuracy of commodities inventory usage:

Beginning inventory balance (9/1)	\$200
Plus: Receipts from the USDA	500
Less: Actual ending inventory (8/31)	(300)
Expenditures to recognize in the fiscal year	\$ 400

Revenues to recognize in current fiscal year	\$ 400
Less: Receipts from the USDA	500
Increase (decrease) to deferred revenue	<u>\$(100)</u>
Beginning deferred revenue	\$(200)
Plus: Increase (decrease) to deferred revenue	(100)
Ending deferred revenue	<u>\$(300)</u>

#### **4.8.4 Cooperatives and Shared Services Arrangements**

Shared services arrangements, for the most part, are carried in the Special Revenue Fund. A specific set of accounts has been reserved for recording the transactions of the fiscal agent of the shared services arrangement. Care should be taken that all shared services arrangements are recorded as such. The 8XX fund series is not used to account for shared services arrangements. Refer to the Shared Services Arrangements section in the Financial Accounting and Reporting module of this *Resource Guide*.

#### **4.8.5 Food Service Operations**

Beginning with the 1992-93 school year, school districts are to account for their food service operations in one of three different fund types, which are:

- **General Fund**—Fund 101 should be used if the following criteria are met: (1) No user fees are charged (i.e., students are not charged for meals) and (2) the school district participates in the National School Lunch Program (NSLP) and expends reimbursement from the NSLP, or the school district does not participate in the NSLP, in which case the General Fund subsidizes the Food Service Fund for all operating costs.
- **Special Revenue Fund**—Fund 240 should be used for programs using federal reimbursement revenues originating from the United States Department of Agriculture (USDA). The Food Service Fund is considered to be a Special Revenue Fund if it meets the following criteria: (1) User fees are charged to supplement the NSLP reimbursement, i.e., students are charged for meals; and (2) the General Fund subsidizes the Food Service Fund for all amounts required in excess of the NSLP

reimbursements and user fees. The Department of Human Services summer meal service program should be accounted for in Fund 242 regardless of whether a school district's National School Breakfast and Lunch Program is accounted for in the General Fund, a Special Revenue Fund or an Enterprise Fund.

- *Enterprise Fund* National School Breakfast and Lunch Program, Fund 701, should be used when a school district intends for the food service operations to be financed from the program and user charges, rather than from General Fund subsidies.

## 4.8.6 Accounting for Compensated Absences

GASB Statement No. 16, *Accounting for Compensated Absences*, is effective for the fiscal year ending 1993-94. This pronouncement addresses a variety of compensated absences, including paid vacations, sick pay, paid holidays, sabbatical leaves, and the benefits associated with each type of compensated absence. The basic premise of GASB Statement No. 16 is that the school district should record a liability in its financial statements when future payments for such absences and related benefits *have been earned* by its employees. Therefore, GASB Statement No. 16 would not require recording the liability when the compensated absence is dependent either upon the performance of *future services* by employees or upon future events that can not be controlled by either the employer or the employee.

### 4.8.6.1 Sick Leave

Normally, sick leave does not qualify as a compensated absence since it is based on a future event (illness) that can not be controlled by the employer or employee. However, many districts make a payment to employees for a portion of their balance of unused sick leave upon termination. When this occurs, it is no longer contingent on an event outside the control of both parties, and should be accrued.

If it is *probable* that the school district will have to make sick leave termination payments, the school district appropriately accrues a liability for such amounts. That probability is dependent on the local policy. Therefore, the auditor should review the local policy of the school district and make sure that accruals are made accordingly. The calculation of the liability should be performed based on the pay rates which are in effect as of the balance sheet date unless a specific rate has been established through policy, regulation or contract.

~~There are 2 methods (termination approaches) for recording sick leave pay:~~

- ~~1) termination payment method—estimate based on prior experience~~
- ~~2) vesting method—calculate based on sick leave estimated to be eligible at termination~~

~~See Section 1.2.5.2 in the FAR Module, Payroll Liabilities, for additional information.~~

### ~~4.8.6.2 Accrued Vacation Pay~~

~~A liability for vacation pay should be recorded by the school district *when earned* by its employees if the following criteria are met:~~

- ~~• Vacation pay is earned based upon the service already provided by the employee~~
- ~~• It is probable that the accrued vacation pay will be paid either in the form of time off, cash or some other form of payment~~

~~The calculation of the liability should be calculated based on the pay rates which are in effect as of the balance sheet date unless a specific rate has been established through policy, regulation or contract.~~

~~See Section 1.2.5.2 in the FAR Module, Payroll Liabilities, for additional information.~~

### ~~4.8.7 Accounting for Self Insurance~~

~~School districts commonly assume some portion of the insurance risk associated with various operations of their business. Operations for which school districts assume some level of self insurance risk are:~~

- ~~• Health insurance~~
- ~~• Dental insurance~~

- Fire insurance
- General liability insurance
- Workers' compensation

In most instances a school district purchases some form of catastrophic coverage associated with each of the self-insured areas. For example, a school district may be self-insured in the area of health coverage, but the school district purchases insurance to limit the maximum payment on an individual employee to \$100,000 in a given year and \$1,000,000 over the life of the employee. School districts are rarely totally self-insured in any given area, because of the possibility of catastrophic losses.

Usually the school district creates a separate internal service fund to account for the operations of self-insured operations. Incurred but not reported (IBNR) claims are insured claims which have occurred but have not yet been reported to the school district. An example of an IBNR within a self-insured health insurance fund are those covered medical costs incurred by an employee during the current fiscal year which have not been processed because of a delay in the filing of a claim. The accrual of loss contingencies in a self-insurance fund is dictated by FASB ASC 450 (Contingencies), which requires an accrual if both of the following conditions are met:

- It is probable that a liability has been incurred or an asset has been impaired at the date of the financial statements
- The amount of the loss can be reasonably estimated.

If both of these two conditions are met, the school district is required to accrue a liability for the self-insured loss as a liability and an expense. Refer to the Accounting of Self-Insurance and Loss Contingencies in Different Types of Funds section of the Financial Accounting and Reporting module of this *Resource Guide* for further information on how to account for such transactions.

## 4.8.8 Post-Employment Benefits other than Pensions

Other Post-employment benefits (OPEB) arises from an exchange of salaries and benefits for employee services rendered and constitutes part of the compensation for those services. OPEB includes postemployment healthcare, as well as other forms of post employment benefits (for example, life insurance) when provided separately from a pension plan.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for postemployment Benefits Other Than defined OPEBs* being:

- Postemployment healthcare benefits—including medical, dental, vision, hearing, and other health-related benefits—whether provided separately or provided through a defined benefit pension plan
- Other forms of postemployment benefits—for example, life insurance, disability, long-term care, and other benefits—when provided separately from a defined benefit pension plan

GASB Statement No. 45 superseded GASB Statement No. 12, and was in turn amended by GASB 57. Since most districts don't offer post-employment benefits other than through TRS, there is not much of an impact on most school districts. [HB 2365](#) passed by the 80<sup>th</sup> Legislature made the implementation of GASB 45 optional for Texas governmental entities, with accounting guidance to be provided by the Comptroller (see [Postemployment Benefit Reporting Under the Statutory Accounting Standard](#)).

## 4.8.9 Arbitrage Rebate Calculations

School districts are required to rebate to the IRS the excess of investment earnings on bond proceeds if the yield on those earnings is materially higher than the yield on the related tax-exempt bonds that the school district issued. Two broad exceptions to the general rebate requirements are the small issuer exception and the spending exception. The rebate is payable every five years or maturity of the bonds, whichever is earlier. The arbitrage liability calculation should be made annually. Arbitrage rebates are categorized with claims and judgments. In governmental funds, the liability should not be recorded until payment is made or the liability is due and payable. In the government-wide statements, the liability should be accrued as the arbitrage rebate is incurred. Refer to IRS Publication 4079, *Tax-Exempt Governmental Bonds* for additional information.

Record \$50,000 of potential arbitrage rebate liabilities.

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Interest Expense (Function Code 71, Object Code 6529)	\$50,000	

<u>Account</u>	<u>Debit</u>	<u>Credit</u>
Other Long-Term Debt Liabilities (Object Code 2590)		\$50,000

## 4.8.10 Activity Fund Classification

The school district's intention for the use of activity fund amounts dictates the fund in which such activities are recorded. The accounting of athletic booster clubs and other similar activities should not be accounted for, or reported by the school district. The fund to be used for recording activity funds is based upon the following questions:

- Does local board policy allow for excess or unused funds to be recalled into the General Fund for general school district use? If so, these activity funds should be accounted for in the General Fund.
- Do other persons besides the students involved in the activity fund have the ability to use the activity fund money in a manner that does not directly benefit the students involved in the activity funds but will benefit the campus? If so, this money should be accounted for as a Special Revenue Fund in Fund 461—Campus Activity Funds.
- Do the activity fund financial decisions rest solely with the students? If so, the activity should be accounted for as an agency fund in Fund 865—Student Activity Account for student club or class funds.

See section 5.5 of the SBDM module of the FASRG for additional information on activity fund accounting.

## 4.8.11 Accounting for Foundation School Program Issues

The Foundation School Program (FSP) entitles Texas public school districts to provide a basic education for each student. Funding consists of local property taxes and state revenues. The local share of FSP is based upon a school district's property values. The FSP is structured into a Tier I (consists of a basic grant or allotment per student plus categorical aid for special population students), and Tier II (enriches the basic educational program funded through Tier I, through the concept of a guaranteed yield of revenue per student).

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula become available. This availability can be as late as midway into the next fiscal year, when property tax collections for the prior fiscal year are audited.

The only constant in the foundation fund formula at the time a budget is adopted is the school district's local share. Therefore, a school district's budget must be based on estimates of variables that affect total FSP. To ensure proper allocation of resources for each educational service, a local district must develop good initial estimates of each of these variables and then monitor the situation throughout the year. Elements that drive FSP calculations, such as average daily attendance (ADA) and contact hours for special populations do not remain static throughout the year.

The legislature appropriates revenues to fund the FSP using projections of property values and student counts. This model is used to calculate payments to school districts for the biennium. When a school district actually earns less than the model in a given year, TEA recovers the excess amount the following year by adjusting the allocation for the following year. If a school district actually earns more FSP revenue than the allocation received based on the model, the difference will be adjusted during the next fiscal year if funds are available.

See the current State Funding Worksheet under the Foundation School Program on the [School Finance](#) website.

#### **4.8.11.1 Under-Funded School Districts**

By the end of a school district's fiscal year, there is usually enough information available to determine when TEA will be able to make up differences for under-funded school districts using recoveries from over-funded districts and other appropriations. According to GAAP, revenues can be recorded when they are measurable and available. Revenues are usually deemed available if they are likely to be received within 60 days of the end of the fiscal year. School districts that have been under-funded can book the FSP revenue as of August 31 (June 30, 20XX depending upon a school's fiscal year start date) if TEA plans to reimburse under-funded school districts within 60 days of the end of the fiscal year.

If the under-funded amount is not available within 60 days, a receivable cannot be recorded on Exhibit A-1 and Exhibit C-2 on a school district's annual audit report according to GAAP.

Payment Class 2 and 3 school districts currently receive the final 15% and 20% of their annual Foundation School Program payments in August. SB 1, 82(R) and SB 2, 82(1) delayed the August 2013 FSP payment until September 2013. Since this money will pertain to fiscal 2012-2013, it should be accrued and shown as revenue on the 2012-13 financial statements. The accrual should be reversed for 2013-14.

#### **4.8.11.2 Over-Funded School Districts**

According to GAAP, school districts that have received more FSP funds than they have earned must record the excess as deferred revenue. Exhibits A-1 and C-2 in school districts' annual audit reports should conform to GAAP.

The budgetary basis should also be used consistently for budgeting and reporting FSP revenues for PEIMS and for use in rollback tax rate calculations.

#### **4.8.12 Pension Obligations**

All school districts participate in the Teacher Retirement System of Texas (TRS), which is a statewide multiple employer public employee retirement system covering all employees of local school districts within the state of Texas. TRS is funded through state and employee contributions, and school districts are not legally required to pay benefits to TRS unless the wages of employees exceed statutory minimum payments.

Beginning in fiscal year 1995-96 school districts are required to record the pension amounts contributed by the state of Texas as both a revenue and an expense of the school district, as such payments are considered to be "on behalf payments" to the school district. Refer to the On-Behalf Teacher Retirement System Payments section in the Financial Accounting and Reporting module of this *Resource Guide*. GASB Statement No. 45 superseded GASB Statement No. 12. Since most districts don't offer post-employment benefits other than through TRS, there is not much of an impact on most school districts. [HB 2365](#) passed by the 80<sup>th</sup> Legislature made the implementation of GASB 45 optional for Texas governmental entities, with accounting guidance to be provided by the Comptroller (see [Postemployment Benefit Reporting Under the Statutory Accounting Standard](#)).

## 4.9 State Compensatory Education Audit

A local audit will be obtained (and paid for) by a school district or a charter school, in accordance with the requirements for an agreed-upon procedures engagement for the compensatory education program (see Module 9, State Compensatory Education), as follows:

- If one or more critical indicators (indicators one through six) are answered “no” (see Exhibit 7 in Module 9, titled “Risk Indicators for Electronic Auditing System of School Districts and Charter Schools”);
- If indicator seven is answered “no” and one or none of the indicators eight through 11 are answered “yes”;
- If the TEA identifies significant data quality issues relating to staff, students or financial data submitted through the Public Education Information Management System;
- If the TEA identifies noncompliance during the course of audit, investigative or monitoring activities of other state and/or federal programs (e.g. Title I, Part A);
- If the most recent agreed-upon procedures engagement submitted to the TEA disclosed significant deficiencies or noncompliance (or if school district or charter school did not submit an agreed-upon procedures report for any subsequent school year in accordance with TEA requirements to obtain a local audit or submitted the report late);
- If the school district did not submit district and campus improvement plans or the charter school did not submit instructional plans for the previous school year, in accordance with this section; or
- If the school district or charter school did not submit a local evaluation of state compensatory education strategies, activities and programs for the previous school year, in accordance with this section.

If a school district or charter school that has a state compensatory education allotment is exempted, for any reason, by the TEA from electronic reporting under the provisions of Texas Education Code Section 42.152(q) (q 4), the school district’s or charter school’s annual financial and compliance report will be reviewed for disclosures of material noncompliance with the requirements for state compensatory education. Evidence of material noncompliance may cause the TEA to direct the local school district or charter school to obtain a local audit, in accordance with the requirements for an agreed-upon procedures engagement for the compensatory education program.

## ~~4.10 Student Dropout and Leaver Audit~~

~~The requirements of Texas Education Code (TEC) §39.055, Annual Audit of Dropout Records Report were repealed during the 78<sup>th</sup> Texas Legislative Session.~~

## 4.11 Attendance Accounting System Audits

Approximately 90 percent of the audits performed by TEA of average daily attendance (ADA) requirements or attendance accounting systems are desk reviews. Occasionally, TEA may perform follow-up procedures to a desk review at individual school districts but primarily audits are conducted off-site.

It is not common practice for the independent auditor to be engaged to perform audits of ADA requirements or attendance accounting systems; however, these services may at times be requested by a school district. Attendance is to be reported to the Texas Education Agency in accordance with the [Student Attendance Accounting Handbook](#). Presented below is an overview of attendance accounting requirements and information regarding performance of audits of attendance accounting systems.

### 4.11.1 Attendance Accounting Overview

All public schools in Texas are required to maintain records to reflect the average daily attendance for the allocation of Foundation School Program (FSP) funds and other funds allocated by TEA, (Title 19, [Texas Administrative Code](#) (TAC), Section 129.21(a)). According to TEA's [Student Attendance Accounting Handbook](#), average daily attendance (ADA) is defined as follows:

Average daily attendance is based on the number of days of instruction in the school year. The aggregate days' attendance is divided by the number of days of instruction to compute average daily attendance. ADA is used in the formula to distribute funding to Texas public school districts.

All eligible students are entitled to the benefits of the FSP. However, for a school district to claim a student for funding purposes, complete documentation which proves the eligibility of the student for the FSP must first be on file. Furthermore, the school district must report all eligible attendance according to provisions established by TEA. For these reasons, both a standardized attendance accounting system and a standardized reporting system have been developed (TEC) 42.006).

All school districts are required to adopt an attendance accounting system, whether manual or automated, which includes procedures that ensure the accurate taking, recording and reporting of attendance accounting data (TEC 42.006 (b)). The [Student Attendance Accounting Handbook](#) contains the official attendance accounting rules and regulations for all public school districts in Texas and is the TEA official standard of required information

for all attendance accounting systems. The school district is responsible for ensuring that the basis used to record and process attendance accounting data meets these standards— (Title 19 TAC Section 129.21(e)).

All school districts must record attendance information for the entire school year. Attendance at the student detail level is to be reported to TEA through the Public Education Information Management System (PEIMS) according to requirements in the [PEIMS Data Standards](#). Participation in PEIMS is mandated for all Texas public schools. In addition, school districts must establish internal controls to ensure the accuracy, validity, and security of attendance data.

## 4.11.2 Audits of Attendance Accounting System

School district attendance records may be audited by TEA's Division of Financial Audits. TEA auditors have the authority to examine attendance records for any year the school district is required to retain records. The objectives of an audit of a school district's attendance accounting system are to determine the following:

- Compliance with rules regarding days of school district operation and instruction
- Compliance with rules regarding student eligibility
- Compliance with rules regarding student attendance for funding purposes
- Compliance with rules regarding student attendance accounting records
- Completeness and accuracy of student attendance data reported to TEA

All attendance accounting systems must readily reproduce the student attendance data required in the [Student Attendance Accounting Handbook](#) upon notification of an audit, regardless of the medium of storage used. Student attendance data must be organized into three distinct data sets: the Student Detail Report, Campus Summary Report(s) and the District Summary Report. Each of these reports is described in detail in the Student Attendance Accounting Handbook which the school district should review to ensure that all required documentation is present and available for audit. The retention period for all documentation required should be in accordance with the Texas State Library and Archives Commission Local Library [Schedule S-D and G-R](#).

~~Audit findings, comments and recommendations by the Division of Financial Audits are intended to determine the propriety of amounts funded in accordance with state law and to assist school district officials in implementing better methods for determining and securing such future funding. In the event errors are detected, the TEA School Finance Division will adjust the school district's current fiscal year's allocation upon receiving the final audit report from the Division of Financial Audits, unless the report is received during the final quarter of the current fiscal year. If the final audit report is received during the final quarter of a fiscal year, the audit adjustment will be applied against the school district's allocation for the subsequent fiscal year.~~

~~In cases of extreme hardship, the audit adjustment may be spread across up to five years. School districts that request extension of the audit adjustment will be required to demonstrate extreme hardship and will be subject to continued financial monitoring throughout the repayment period. The maximum extension of an audit adjustment is the year in which the adjustment is first applied and up to four subsequent fiscal years.~~

## 4.12 Peer Review

The American Institute of Certified Public Accountants (AICPA) established the peer review program with the goal of assuring quality in the performance of accounting and auditing engagements by AICPA members. This goal serves the public interest, including that of school districts, and at the same time enhances the significance of AICPA membership. The objectives of the peer review program are achieved through the performance of peer reviews.

### 4.12.1 Objective and Frequency of Peer Review

The objective of peer review is to determine a member firm's compliance with quality control standards for its accounting and auditing practices as established by the AICPA. The review of the firm is performed by an independent review team and involves procedures tailored to the size of the firm and the nature of its practice. Under the peer review program, firms are required to undergo an independent review of their accounting and auditing practices once at least every three years.

### 4.12.2 Elements of Quality Control

Every CPA firm is required to have a system of quality control for its accounting and auditing practice. There are six elements of quality control a firm shall consider in establishing its quality control policies and procedures. The six elements of quality control are listed and defined in [Exhibit 4](#).

Exhibit 4. The Six Elements of Quality Control

Element	Designed to Provide Assurance That:
Leadership Responsibilities for Quality Within the Firm	The firm promotes an internal culture recognizing that quality is essential.
Relevant Ethical Requirements	Personnel maintain independence (in fact and appearance) in all required circumstances and perform professional responsibilities with integrity while maintaining objectivity.
Acceptance and Continuance of Clients	The firm has considered the integrity of the client, is competent to perform the engagement and can comply with legal and ethical requirements.
Human Resources	The firm has sufficient personnel able to perform engagements according to professional standards and regulatory and legal requirements. Capabilities of personnel ensure issuance of reports appropriate in the circumstances.
Engagement Performance	Work performed at all organizational levels meets professional standards and regulatory and legal requirements and the firm issues reports that are appropriate in the circumstances.
Monitoring	The procedures relating to other elements of quality control are being effectively designed and applied

### 4.12.3 General Considerations for a Peer Review

The general considerations for a peer review as defined in Standards for Performing and Reporting on Peer Reviews issued by the AICPA are as follows:

- *Documentation Requirements*—Documentation demonstrates the peer reviewer complied with the standards and supports the conclusions.

- ~~*Timing*~~—After the initial review, subsequent peer reviews occur every 3 years.
- ~~*Confidentiality*~~—A peer review must be conducted in compliance with the confidentiality requirements set forth in the AICPA Code of Professional Conduct.
- ~~*Independence, Integrity and Objectivity*~~—Members of the review team must be independent of the firm being reviewed. The review team should be honest, candid, impartial, intellectually honest, and free of conflicts of interest.
- ~~*Due Professional Care*~~—Due professional care must be exercised in performing and reporting on the review. This imposes an obligation on all those involved in carrying out the review to fulfill assigned responsibilities in a professional manner similar to that of an independent auditor auditing financial statements.
- ~~*Administration of Reviews*~~—Reviews must be carried out in conformity with these standards under the supervision of a state CPA society, group of state CPA societies, AICPA National Peer Review Board or other entity approved to administer peer reviews.

#### **4.12.4 Organization of the Review Team**

Peer reviews for system reviews can be conducted by two types of teams:

- A CPA firm selected by the reviewed firm and approved by a quality review committee. The selected firm must be independent of the firm reviewed
- A team appointed by an association of CPA firms to which the firm belongs

#### **4.12.5 Qualifications for Service as a Reviewer**

Performing and reporting on peer reviews requires the exercise of professional judgment by peers. Accordingly, an individual serving as a reviewer must be a member of the AICPA in good standing licensed to practice as a certified public accountant and must possess current knowledge of applicable professional standards. In addition, an individual must

have at least 5 years' recent experience in public accounting practice in the auditing or accounting function and be currently active in public practice at a supervisory level.

Reviewers participating in peer reviews must be currently active in public practice at a supervisory level in the accounting and auditing function of a firm enrolled in an approved practice monitoring program (a firm enrolled in the AICPA peer review program) as one of the following:

- A proprietor, partner, or shareholder
- A manager or person with equivalent supervisory experience

For a System Review, a team captain must be a partner and must have completed a training course that meets established requirements. A team captain cannot be associated with a firm whose most recent peer review was an Engagement or Report Review.

## 4.12.6 System Reviews

A system review is intended to provide the reviewer a reasonable basis for expressing an opinion on whether during the year under review the reviewed firm's:

- System of quality control for its accounting and auditing practice met the objectives of quality control standards established by the AICPA
- Quality control policies and procedures were being complied with in order to provide the firm with reasonable assurance of conforming with professional standards

The system review includes an actual field visit and the performance of the following procedures:

- Study and evaluation of the reviewed firm's quality control system
- Review for compliance with the firm's quality control system at each organizational or functional level within the firm

- Review of selected engagements including the relevant work paper files and reports, as well as discussions with professional personnel of the reviewed firm
- Review of significant risk areas.

#### **4.12.6.1 Scope of the Peer Review**

The review should cover a firm's accounting and auditing practice which for purposes of quality reviews under these standards is limited to engagement services covered by Statements on Auditing Standards, audits of non-SEC issuers performed pursuant to the standards of the PCAOB, Statements on Standards for Attestation Engagements, and [Government Auditing Standards](#) issued by the U.S. Government Accountability Office (the Yellow Book).

#### **4.12.6.2 Exit Conference**

Prior to issuing its report and, if applicable, Finding for Further Consideration (FFC) forms, the review team must communicate its conclusions to senior members of the reviewed firm at an exit conference, which may also be attended by individual(s) with oversight responsibilities. The reviewed firm is informed at the exit conference about the type of report to be issued, all matters that may affect the review report and about all significant findings and recommendations that will be included in the Matter for Further Consideration (MFC) forms or FFC forms. Also, at this time, the reviewing firm may provide suggestions to the firm that does not have an effect on the report, FFC or MFC forms.

#### **4.12.7 Other Reviews**

There is another type of review; however, all school district audits would require the CPA firm performing the audit to have a system review.

An engagement review is for firms that do not perform engagements under the SASs or Government Auditing Standards, in addition to a couple of other types of engagements.

#### **4.12.8 Reporting on Peer Reviews**

Within thirty days of the date of the exit conference or the firm's peer review date (whichever is earlier), the reviewing firm should furnish the reviewed firm a written report.

~~The team captain should notify the entity administering the review that the review has been completed and should submit to that entity a copy of the report (pass, pass with deficiencies, or fail). The reviewed firm should submit a copy of the report and its response to all matters discussed in the report or letter of comments to the entity administering the review within thirty days of the date it received the report or the firm's peer review due date, whichever is earlier.~~

~~The reviewed firm should not publicize the results of the review or distribute copies of the report until the report has been accepted by the entity administering the review as meeting the requirements of the AICPA Peer Review Board. The administering entity may disclose on request the following information:~~

- ~~• The firm's name and address~~
  
- ~~• The firm's enrollment in the Peer Review Program~~
  
- ~~• The date of acceptance and the period covered by the firm's most recently accepted review~~
  
- ~~• If applicable, the termination of the firm from the program~~

## **~~4.12.9 Acceptance of Reviews~~**

~~Committees appointed by each participating state CPA society and by the AICPA consider the results of reviews administered by them and undertaken to meet the requirements of the peer review program in accordance with administrative procedures issued by the AICPA Peer Review Board. The committees' responsibilities are to consider whether:~~

- ~~• The review has been performed in accordance with standards, interpretations and related guidance materials~~
  
- ~~• The report, letter of comments, if any, and the response thereto are in accordance with standards, interpretations and related guidance materials~~
  
- ~~• It should require any remedial, corrective actions in addition to those described by the reviewed firm in its letter of response~~

- It should monitor the corrective actions implemented by the reviewed firm
- Reviews are presented in a timely manner

If no additional corrective actions are deemed necessary, the appropriate committee will accept the report and so notify the reviewed firm. If additional actions are deemed necessary, the firm will be required to evidence its agreement in writing before the report is accepted.

#### **4.12.10 Impact of Peer Reviews on the School District**

A school district may request a continuing or a potential independent auditor to provide information regarding the results of the firm's latest peer review. This information can assist the school district in selecting an independent auditor for the performance of its annual financial and compliance audit, as well as for any other special engagements.



## EXAMPLE

### ~~REQUEST FOR QUALIFICATIONS~~

### ~~ANNUAL FINANCIAL AUDIT~~

### ~~EXAMPLE INDEPENDENT SCHOOL DISTRICT~~

~~RFQ# 0935P-03~~

~~The Example Independent School District is requesting qualifications from public-accounting firms to perform the annual audit for fiscal year 200X.~~

#### ~~I. BACKGROUND INFORMATION~~

~~Auditing requirements for Texas' public school districts are contained in the *Texas Education Agency Financial Accountability System Resource Guide*, which is the authoritative document, adopted by reference as a rule of the State Board of Education, through Title 19, Texas Administrative Code, Section 109.41.~~

~~Example Independent School District ("the District") has an enrollment of 54,007 in grades pre-kindergarten through 12, on 62 campuses. The 2002-03 budgeted expenditures for the General, Food Service and Debt Service Funds is \$325,455,464. The school district expended federal financial assistance for several programs including but not limited to National School Lunch Program, ESEA Title I Part A Improving Basic Programs, ESEA Title I Part C Education of Migratory Children, and ESEA Title VI Innovative Education Program, IDEA Part B Formula.~~

~~The District's Comprehensive Annual Financial Report for the year ended August 31, 200W has been included with this Request for Qualifications.~~

~~The District has received the GFOA Certificate of Achievement for Excellence in Financial Reporting and the ASBO Certificate of Excellence for the years ended August 31, 1988 through August 31, 200W. We believe that our current report continues to conform with the requirements of these programs.~~

#### ~~A. Purpose of the Audit~~

~~The purpose of the Request for Qualifications is to obtain the services of a public-accounting firm for the annual audit for fiscal year 2003. The organization-wide audit will encompass the financial statements as required by GASB Statement No. 34 and the *Texas Education Agency Financial Accountability System Resource Guide* for the District for the fiscal year ending August 31, 200X. The audit is to be performed in accordance with generally accepted auditing standards and generally accepted government auditing standards contained in the *Texas Education Agency Financial Accountability System Resource Guide*.~~

The financial statement audit is to determine whether (1) the financial statements present fairly the financial position, results of operations, and cash flows or changes in financial positions in accordance with generally accepted accounting principles, and (2) whether the District has complied with laws and regulations for those transactions and events that may have a material effect on the financial statements. The financial related audit will also include determining whether (1) financial reports and related items are fairly presented, (2) financial information is presented in accordance with established or stated criteria, and (3) the school district has adhered to specific financial compliance requirements.

As a part of the audit of the basic financial statements, the annual audit will also include obtaining an understanding of the school district's internal control and reporting any significant deficiencies or material weaknesses relating to the internal control systems coming to the attention of the auditors. To comply with Office of Management and Budget Circular A-133, a study and evaluation of internal control will include internal accounting and administrative controls for all major federal financial assistance programs, in accordance with standards for risk assessment for major federal financial assistance. Any material weakness noted during the study and evaluation of internal accounting and administrative controls and other kinds of noncompliance and questioned costs will be reported in compliance with the Single Audit Act.

As part of the audit of the financial statements, transactions and records pertaining to federal programs will be tested for material compliance with federal laws, rules, and regulations and all instances of noncompliance will be reported to the school district.

The audit will include the performance of certain audit procedures for the purpose of reviewing the accuracy of fiscal information provided by the district through the Public Education Information Management System (PEIMS), as required by Section 44.008(b) of the Texas Education Code.

The audit will include procedures applicable to compensatory education funds as required by Module 9 of the Financial Accountability System Resource Guide, if required.

#### **B. Other Requirements**

1. The accounting firm should provide an annual audit report in a form acceptable to the Texas Education Agency and within the time frame stipulated in TEC 44.008 (d) of 150 days subsequent to the close of the fiscal year for which the audit was made.
2. The Finance and Audit Committee would expect to meet with the auditor(s) at least annually. The meeting would be called by the chairman of the Finance Committee.

- ~~3. Due to limited staff, the District can provide partially completed financial statements and supporting schedules for auditor review at the close of the fiscal year. Attachment B includes a listing of audit schedules that the District has prepared.~~
- ~~4. The District intends to sell bonds from time to time, which may require the audited financial statements and Auditor's opinion to be printed in total or as a part of the section of or addendum to the Official Statement for bond issues. Also, certification may be required for Interest and Sinking Fund Reserve Balances as a point in time other than year end.~~
- ~~5. It is requested that the interested accounting firm include a detailed description of each step in the audit approach that will be taken in the audit engagement including estimated hours for each.~~
- ~~6. The firm upon being awarded this engagement will be expected to review the detailed audit work plan and schedule with the Director of Finance prior to commencing the audit assignment each year.~~
- ~~7. Financial statements developed by the Auditor must be in a form that complies with the requirements for the GFOA Certificate of Achievement, the ASBO Certificate of Excellence, and the Texas Education Agency.~~
- ~~8. All working papers and reports must be retained, at the auditor's expense, for a minimum of five (5) years, unless the firm is notified in writing by the District of the need to extend the retention period. The auditor will be required to make working papers available, upon request, to auditors from the Texas Education Agency, The Government Accountability Office, or other applicable governmental agencies, they are not otherwise considered to be records open to the general public.~~

#### ~~B. Independent Auditor~~

~~The interested accounting firm must demonstrate the capability to perform the annual audit in accordance with generally accepted government auditing standards and state board of education auditing rules. Public accounting firms that have performed annual audits for similar entities are encouraged to file a proposal.~~

#### ~~C. Term of the Audit Engagement~~

~~The contract for audit services based upon Board of Trustees approval of the proposal will be for the fiscal year ending August 31, 200X. The District may request to extend this agreement for another four years through fiscal year August 31, 200B, following satisfactory delivery of the services specified in the proposal and engagement letter.~~

#### ~~D. Dispute Resolution~~

~~Disputes concerning the terms of contracted services that cannot be resolved will be brought before an independent mediation center, whose decision will be binding upon both parties.~~

## II. PROPOSAL CONTENT

### A. Cover Letter

~~See conditions for submission of proposal in Section III.~~

### B. Technical Component

~~To describe clearly the public accounting firm's understanding of the work to be done, the interested accounting firm will:~~

- ~~1. Provide a definition of the term "generally accepted government auditing standards" with clear distinctions between these standards and generally accepted auditing standards for nongovernmental engagements;~~
- ~~2. Explain the interested accounting firm's approaches to performing an annual audit, including the methodology, nature, timing and extent of audit procedures to be performed;~~
- ~~3. Describe how the approach to performing the audit would be affected if this were a multiyear contract; and~~
- ~~4. Make a statement concerning the independence of the interested accounting firm, including direct and indirect financial interest, and the relationship of the proposed audit team to employees of the district and any of the board members.~~

### C. Management Component

~~The interested accounting firm will furnish satisfactory evidence of capability to provide in a professional and timely manner the services stated in the Request for Qualifications. To meet this requirement:~~

- ~~1. Provide the name of the external quality control review organization of which the interested accounting firm is a member and the interested accounting firm's length of membership. Also, state the review organization's planned frequency of peer reviews;~~
- ~~2. State whether the firm has received a peer review and whether in the most recent review an unqualified report was issued;~~
- ~~3. State whether the interested accounting firm is a national, regional or local public accounting firm;~~
- ~~4. Provide evidence that the interested accounting firm has experience in performing school district/government audits. List current and past audit clients~~

~~along with the names and telephone numbers of contact persons and number of years audit services were provided. State the average daily attendance of the public schools on the list;~~

- ~~5. State whether the interested accounting firm is currently under the terms of a public or private reprimand by the Texas State Board of Public Accountancy and licensing boards of other states;~~
- ~~6. Describe the proposed audit team, in terms of job positions in the firm;~~
- ~~7. List names of staff member(s) who will direct the overall audit throughout the duration of the engagement as well as those staff members who will be responsible for planning, directing, and conducting substantial portions of the fieldwork or reporting on this audit engagement. Include the educational background of all staff members named and professional licenses held;~~
- ~~8. Describe continuing professional education in governmental accounting and auditing received by the proposed audit team during the last four years;~~
- ~~9. Provide the names and qualifications of any needed outside specialists and consultants that will assist the interested accounting firm's staff members;~~
- ~~10. Describe staff rotation plans for audit team members if this is to be a multiyear contract;~~
- ~~11. Describe the level of assistance that will be expected from District personnel, including internal audit staff; and~~
- ~~12. Provide evidence of the ability to comply with the requirements in Sections II and VI of the Request for Qualifications.~~

#### D. Task/Activity Plan

~~The interested accounting firm will specify budgeted hours, time lines and sequence for audit procedures, and names of staff to be assigned.~~

#### E. Evaluation

~~Criteria used to evaluate the interested accounting firm's methodologies, products, and services are shown in Attachment A.~~

### III. CONDITIONS FOR SUBMISSIONS OF PROPOSAL

~~All qualifications in response to this request must meet the following conditions to be considered:~~

- ~~A. Qualifications must include a cover letter clearly stating the name of the firm and the name, address, and telephone number of the interested accounting firm's representative;~~

- ~~B. Qualifications must address each of the audit requirements as stated in this Request for Qualifications;~~
- ~~C. The District reserves the right to reject any and all qualifications, and to negotiate portions thereof. Qualifications that address only part of the requirements contained in this Request for Qualifications will not be considered;~~
- ~~D. The District reserves the right to select any proposal, considering the quoted estimated fee and other factors;~~
- ~~E. The interested accounting firm shall furnish such additional information that the District may reasonably require;~~
- ~~F. The District will not be liable for any cost incurred in the preparation of qualifications; and~~
- ~~G. The District may ask interested accounting firms to send a representative for an oral interview prior to Board of Trustee approval of a proposal. The District will not be liable for the costs incurred by the interested accounting firm in connection with such interview.~~
- ~~H. The District and interested accounting firms may enter into discussions and revisions of proposal, as necessary. Discussions/negotiations may be conducted with interested accounting firms who are deemed to be within the final competitive range; however, EISD reserves the right to award a contract without discussions/negotiations. The best and final proposal may be required as early as 24 hours after completion of negotiations/discussions.~~
- ~~I. Qualifications must be signed by an authorized individual to contractually bind their firm when submitting the Qualifications. Failure to sign the Qualifications will be considered as a “mistake in Qualifications”, and the Qualifications will be rejected as “non-responsive”.~~
- ~~J. By submitting a proposal, the interested accounting firm affirms that its company, corporation, firm, partnership or individual has not prepared this proposal in collusion with any other bidder and that the contents of this proposal as to prices, terms, or conditions have not been communicated by the undersigned or by any employee or agent to any other person or firm engaged in this type of business prior to the official opening of this proposal.~~
- ~~K. Upon notification of potential selections for award, the person or entity submitting this proposal must give notice to the district if the person or an owner or operator of the business entity has been convicted of a felony. The notice must include a general description of the conduct resulting in this conviction of a felony (this requirement does not apply to a publicly held corporation).~~
- ~~L. In the event that any one or more of the provisions contained in this Request for Qualifications (or resulting purchase order) shall be held by a court of competent jurisdiction to be invalid, illegal or unenforceable, such provisions shall not affect~~

~~any other provision hereof, and this Request for Qualifications (or any resulting purchase order) shall be construed as if the invalid, illegal or unenforceable provision(s) had never been contained herein.~~

#### IV. PROCEDURES FOR SUBMITTING PROPOSALS

##### A. Delivery

Responses to the Request for Qualifications should be addressed to:

Sam Smith  
Director of Purchasing  
Example Independent School District  
100 N. Credit Street  
Example, Texas 55040  
(555) 555-0000

~~Qualifications must be received no later than 2:00 p.m., May 2, 2003. Qualifications received at the EISD Purchasing Office after the time and date specified above will not be considered and will be filed unopened.~~

~~Oral or telegraphic qualifications transmitted via the District's facsimile machine are not acceptable. Qualifications must be submitted to the District in a sealed envelope. **DO NOT FAX YOUR QUALIFICATIONS!**~~

##### B. Number of Copies of Qualifications

~~Submit ten (10) copies of the qualifications. The qualifications are to be bound and sealed.~~

#### V. ASSISTANCE TO PROPOSERS

~~Any person wishing to obtain additional information about the Request for Qualifications or about the operations of the District may contact:~~

George De Bit  
Director of Finance  
debit@exampleisd.net

~~The District will only respond to questions submitted via email.~~

~~The District will send addendums to the RFQ to potential accounting firms via email. Please send an email to xxx@exampleisd.net containing firm contact name and email address no later than April 16, 2003.~~

#### VI. STATEMENT OF REQUIREMENTS

- ~~A. The independent auditor will provide one (1) camera ready copy of the final comprehensive annual financial report that meets the requirements of Texas Education Agency Financial Accountability System Resource Guide, the requirements for the GFOA Certificate of Achievement, and the ASBO Certificate of Excellence and a copy in .pdf format.~~
- ~~B. The independent auditor will be required to submit 20 copies of the final compensatory education audit, if applicable.~~
- ~~C. A preliminary draft of the audit report(s) will be presented to the District prior to submission of the final draft. Timing of the submission must allow District personnel sufficient time to review the report.~~
- ~~D. Satisfactory delivery of the services specified by the Request for Qualifications and the engagement letter shall be accomplished no later than the January meeting of the Board of Trustees for the financial audit.~~
- ~~E. The independent auditor will be required to present the audit report to the Board of Trustees at the January meeting of the Board of Trustees.~~
- ~~E. The independent auditor is required to provide a management letter containing comments oriented toward constructive improvements. Copies of selected audit working papers will be provided as requested by the District and as provided for in the engagement letter. If a management letter is issued the auditor will provide the District twenty (20) copies.~~
- ~~F. The auditor will prepare and provide one (1) copy of the Data Collection Form for Reporting on Audits of States, Local Governments and Nonprofit Organizations.~~

## VII. PROPOSED SCHEDULE

### Qualifications Timing

Intent to submit proposal due to District	April 16, 200X
Qualifications due to the District	May 2, 200X
Approval of firm by Board of Trustees	May 15, 200X

### Audit Timing (subject to change)

Start interim field work	July 21, 200X
Start final field work	October 20, 200X

<del>Draft financial statements and management letter due to Finance Department for review</del>	<del>December 8, 200X</del>
<del>Presentation of issued financial statements to the Finance and Audit Committee</del>	<del>January 12, 200Y</del>
<del>Presentation of issued financial statements to the Board of Trustees</del>	<del>January 14, 200Y</del>

#### VIII. BOARD OF TRUSTEE APPROVAL

~~The Board of Trustees expects to engage an audit firm for five years. However, the Board of Trustees expressly reserves the right to reject all bids and to review the relationship on an annual basis and to formally approve each year's extension. The Example Independent School District reserves the right to cancel any contract resulting from this Request for Qualifications at any time, for any reason (or for no reason) with a thirty (30) day written notice to the firm. The firm may cancel any resulting contract, at any time for any reason, or for no reason with a sixty (60) day written notice. Any notice required or permitted to be delivered to the firm shall be deemed to be delivered when mailed by registered or certified mail, return receipt requested, postage prepaid, and addressed to the bidder's address appearing on the face of the Request for Qualifications (or as subsequently revised or changed). Any compensation due the firm will be limited to items received and/or services performed and accepted by the District. It is possible that the Board could terminate the relationship at any time. However, the Board of Trustees does not desire or expect that to be the case and assumes that a long and satisfactory relationship will be the experience.~~

#### XI. OTHER INFORMATION

- ~~A. Auditors will be allowed to work on site after 5:00 p.m. and on weekends if necessary and desirable. However, it cannot be guaranteed that Staff will be available to answer questions at those times. Arrangements should be made in advance if these after hours periods are necessary.~~
- ~~B. The Board of Trustees will pass a resolution accepting the written proposal as the understood agreement for services performed and other commitments.~~

## EVALUATION WORKSHEET

This worksheet is to be used to document the District's evaluation of the interested accounting firms' qualifications. Points within the ranges specified are to be assigned to the below listed criteria as a means for quantifying the relative strengths and weaknesses of the various qualifications.

~~In the event that oral interviews are necessary to break a tie or for making final clarification in the evaluation process, additional points may be awarded. It should be understood that while the total score is a significant factor, the requester of the services reserves the right to consider other factors in making a final selection.~~

### PROFESSIONAL QUALIFICATIONS

~~The evaluation of professional qualifications of the interested accounting firms will be based on the following criteria:~~

#### I. Mandatory Criteria

~~Qualifications will not be considered for further evaluation unless there is compliance with all of the following criteria. The interested accounting firm:~~

- ~~A. Must be an independent auditor properly licensed for public practice.~~
- ~~B. Must meet the independence standards of Government Auditing Standards, United States Government Accountability office (GAO).~~
- ~~C. Must not have a record of substandard work.~~
- ~~D. Must submit a proposal meeting all of the requirements of the Request for Qualifications.~~

#### II. Technical Criteria \_\_\_\_\_ POINTS

~~Qualifications which have met each of the criteria in Section I above will be evaluated on the following criteria:~~

- ~~A. Technical experience of the firm:
 
  - ~~1. Auditing experience in Texas public schools (0-15)~~
  - ~~2. Auditing experience in government~~
  - ~~3. entities (0-5)~~~~
- ~~B. Characteristics of the staff, including consultants to be assigned to the audit:~~

- ~~1. Size and structure of the firm, including audit staff positions (0-5)~~
  - ~~2. Qualifications of supervisory personnel, consultants, and the field audit team (0-20)~~
    - ~~.— Education, including continuing education courses taken during the past two years~~
    - ~~.— Years and types of experience~~
  - ~~3. General direction and supervision to be exercised over the audit team by the firm's management personnel (0-15)~~
- ~~C. Clear understanding of the work to be performed:~~
- ~~1. Comprehensiveness of the audit work plan (0-5)~~
  - ~~2. Realistic time estimates of each major segment of the work plan, and the estimated number of hours for each staff level including consultants assigned (0-10)~~
- ~~Total Technical Points~~

IV. Oral Interviews (If Necessary)

~~Interview Points Awarded (0-15)~~

~~Total Points~~

~~Audit Schedules That Have Been Prepared By the District~~

~~GENERAL FUND~~

- ~~1. Trial Balance: Assets, Liabilities, Fund Equity, Revenues and Expenditures~~
- ~~2. Detail of Actual Expenditures by function and object code (and budget amounts, if applicable)~~
- ~~3. Revenues by Source~~

~~INTERNAL SERVICE FUND~~

- ~~4. Trial Balance: Assets, Liabilities, Retained Earnings, Revenues and Expenses~~
- ~~5. Statement of Revenues Expenses and Changes in Retained Earnings~~
- ~~6. Statement of Cash Flows (by fund and in total)~~
- ~~7. TASB Workers' Compensation Report Actuarial Study (if one has been performed this year)~~

~~AGENCY FUNDS~~

- ~~8. Trial Balance: Assets, Liabilities, Fund Equity and Statement of Changes in Assets & Liabilities~~
- ~~9. Trial Balance Escrow~~

~~SPECIAL REVENUE FUNDS~~

- ~~10. Trial Balance: Assets, Liabilities, Fund Equity and Combining Statement of Revenues, Expenditures and Changes in Fund Balance (both by function and Budget vs. Actual)~~
- ~~11. Schedule of Expenditure of Federal Awards~~
- ~~12. Schedule of Expenditures for Computation of Indirect Cost~~

~~CAPITAL PROJECT FUNDS~~

~~13. Trial Balance: Assets, Liabilities, Fund Equity, Revenues and Expenditures~~

~~14. Summary of Rebatable Arbitrage~~

#### ~~FIXED ASSETS~~

~~15. Summary of Changes~~

~~16. Schedule by Function and Source~~

~~17. Schedule by Function and Activity~~

~~18. Schedule of Changes in General Fixed Assets by Function and Activity~~

~~19. Summary of Construction in Progress~~

~~20. Construction in Progress Schedule~~

~~21. Major Commitments for Construction in Progress~~

#### ~~DEBT SERVICE FUND~~

~~22. Trial Balance: Assets, Liabilities, Fund Equity, Revenues and Expenditures~~

#### ~~DEBT~~

~~23. Bond Payment Amortization Schedules~~

~~24. Trial Balance: Balance Sheet~~

~~25. Bond Schedule for CAFR~~

~~26. Bond Schedule (Debt Service Requirements through Maturity)~~

~~27. Schedule of Leases Payable (Current Year through Total Future Payments)~~

~~28. Schedule of Refunded Debt Outstanding~~

#### ~~MISCELLANEOUS~~

~~29. Summary of Bank Reconciliations~~

~~30. Interbank Transfers~~

- 31. ~~Test of Accrued Interest~~
  - 32. ~~Schedule of Delinquent Taxes Receivable~~
  - 33. ~~Schedule of Prepaid Insurance~~
  - 34. ~~Interfund Receivables/Payables (Due To/From)~~
  - 35. ~~Sick Leave Pay~~
  - 36. ~~Outstanding Purchase Order Listing~~
  - 37. ~~TRS Schedule~~
  - 38. ~~Interest and Income Average Yield~~
  - 39. ~~Detail of Other Sources (Uses)~~
  - 40. ~~Combined Balance—All Fund Types and Account Groups~~
  - 41. ~~Combined Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Fund Types~~
  - 42. ~~Combined Statement of Revenues, Expenditures and Changes in Fund Balances—Budget (GAAP Basis) and Actual—All Governmental Fund Types~~
  - 43. ~~Budget Amendments~~
- STATISTICAL SECTION (ITEMS #44–55)
- 44. ~~Property Tax Levies and Collections~~
  - 45. ~~Ratio of Net General Bonded Debt to Assessed Value~~
  - 46. ~~Computation of Legal Debt Margin~~
  - 47. ~~Ratio of Annual Debt Service for General Bonded Debt to Total General Expend~~
  - 48. ~~Demographic Statistics~~
  - 49. ~~Construction and Property Value~~
  - 50. ~~Principal Taxpayers~~
  - 51. ~~Miscellaneous Statistics~~

52. General Governmental Expenditures by Function
53. General Governmental Revenues By Source
54. Assessed Taxable Value By Type of Property
55. Property Tax Rates – Direct and All Overlapping Governments
56. Computation of Direct and Overlapping Debt
57. Property Value, Construction and Bank Deposits
58. Schedule of Test of Property Tax Allocation
59. Optimum Fund Balance Calculation Schedule (optional)
60. PEIMS report
61. Final Financial report All funds Revenues & Expenditures

#### MISCELLANEOUS

62. Various Confirmations
63. Board Minutes – through the date of report issuance

## Appendix 2 - Sample Engagement Letter

Date

Anywhere Independent School District  
(Addressed to the governing  
board of the auditee)

10 Main Street

Anywhere, TX 79999

Dear \_\_\_\_\_:

We are pleased to serve as independent accountants and auditors for the Anywhere Independent School District (the "District") for the year ended August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date).

Mr. George Jones will be the partner in charge of all work we perform for you. We believe that frequent and timely communication throughout the year reduces the problems that are often associated with an annual audit. In addition, we have found that we can often assist clients on current problems as they arise. We hope you will call Mr. Jones whenever you feel that he can be of assistance.

### **Report on Audit of Financial Statements**

The purpose of our engagement is to audit the basic financial statements of the District as of and for the year ended August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date). Other information accompanying the basic financial statements will subject to the auditing procedures applied in the audit of the basic financial statements, except for the Optimum Fund-Balance Calculation schedule which will be unaudited.

Our audit will be a *Single Audit* conducted in accordance with generally accepted auditing standards; the standards for financial audits contained in [Government Auditing Standards](#), issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of [OMB Circular A-133](#), "*Audits of States, Local Governments, and Non-Profit Organizations*", the OMB Circular A-133 [Compliance Supplement](#), dated March, 2009, and will include tests of the accounting records of the District and such other procedures as we consider necessary to enable us to express an unqualified opinion that the financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles and also to report on the Schedule of Federal Financial Assistance, on the District's compliance with laws and regulations, and on internal controls as required under the Single Audit Act. If your opinion is other than unqualified, we will discuss the reasons therefore with you in advance.

Our auditing procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry.

At the conclusion of our audit, we will also request certain written representations from you about the financial statements and related matters. Such representations will include matters relating to compliance with state and local laws and regulations and compliance with the requirements governing the federal financial assistance programs administered by the District.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Also, we will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. However, because of the concept of reasonable assurance and because we will not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud or defalcations, may exist and not be detected by us.

As required by the Single Audit Act, our audit will also include tests of transactions related to federal assistance programs for compliance with applicable laws and regulations. However, because of the concept of reasonable assurance and because we will not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud or defalcations, may exist and not be detected by us. We will advise you, however, of any matters of that nature that come to our attention, and will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to matters that arise during any later periods for which we are not engaged as auditors.

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. As required by OMB Circular A-133, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and OMB Circular A-133.

Our audit will also include the performance of certain audit procedures for the purpose of reviewing the accuracy of fiscal information provided by the district through the [Public Education Information Management System \(PEIMS\)](#), as required by Section 44.008(b) of the

It is our understanding that you will provide us with the basic information required for our audit and that you are responsible for the accuracy and completeness of that information. We will advise you about accounting principles and preparation of your financial statements, but the responsibility for the financial statements remains with you. This responsibility includes the maintenance of adequate records and related controls relevant to an audit of financial statements, the selection and application of appropriate accounting principles, and the safeguarding of assets.

The District will be responsible for ensuring that the audit report is received by the Texas Education Agency within 150 days of the close of the fiscal year. The District is further responsible for

ensuring that other appropriate governmental agencies receive copies of the audit report according to instructions in the *Texas Education Agency Financial Accountability System Resource Guide*.

We understand that your employees will type all cash or other confirmations that we request and will locate any invoices selected by us for testing.

Because, in addition to our report on the general purpose financial statements, the scope of the engagement includes an audit in accordance with [Government Auditing Standards](#) and the requirements of the Single Audit Act, we are required to issue reports on compliance with federal and state/local laws and regulations, including legal compliance and reports on your systems of internal control. These reports may be accompanied by observations (findings) on your compliance or on your systems of internal control and a schedule of questioned costs, if the results of our audit procedures require such observations or questioned costs. If any observations or findings are reported to you, you must provide a written corrective action plan under the requirements of the Single Audit Act.

We will maintain the working papers for a minimum of five years from the date of our reports. These working papers will be available to representatives of the cognizant audit agency (or its designee), other government audit staffs and/or the United States Government Accountability Office upon their request and after they have properly notified you of their request to review the working papers.

### **Other Communications Arising from the Audit**

We will provide copies to school district officials (preferably the superintendent or his designee, such as the chief business official) of all adjusting entries, closing entries and adjustments to closing that were made by our firm in the course of the audit engagement. We will provide this information to the district in both written (hard copy) and electronic form, including a formatted spreadsheet file(s). The adjusting entries will be provided to the district no later than 60 calendar days after presentation of the annual financial report to the board of trustees of the school district.

In connection with the planning and the performance of our audit, generally accepted auditing standards require that we communicate certain matters to the Board of Trustees. We will communicate to the Board, to the extent that they come to our attention, irregularities and illegal acts that are clearly not inconsequential, and significant deficiencies and material weaknesses. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the district's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

In addition, to the extent they are applicable we will communicate to the Board certain other matters related to the conduct of our audit, including:

- Significant accounting policies
- Management judgments and accounting estimates
- Significant audit adjustments (recorded and unrecorded)

- ~~Consultation by management with other accountants on significant matters~~
- ~~Difficulties encountered in performing the audit~~
- ~~Major issues discussed with management prior to our retention as auditor~~

~~We may also have other comments for management on matters we have observed and possible ways to improve the efficiency of your operations or other recommendations concerning the internal control.~~

~~With respect to these other communications, it is our practice to discuss all comments, if appropriate, with the level of management responsible for the matters prior to their communication to senior management and/or the Board.~~

### **Schedule of the Audit**

~~Our audit is tentatively scheduled for performance and completion as follows:~~

~~Begin ————— Complete~~

~~Audit Performance Schedule:—~~

~~Planning~~

~~Interim~~

~~Year-end—~~

~~Audit Communications:~~

~~Report on Audit of Financial Statements—~~

~~Other Communications:~~

~~Significant Deficiencies or Material Weaknesses, if any—~~

~~Conduct of the Audit Matters~~

~~Other Management Comments~~

~~Assistance to be supplied by your personnel, including preparation of schedules and analyses of accounts, is to be approximately the same as that which you have planned to provide in the past. Timely completion of this work will facilitate the conclusion of our audit.~~

### **Fees**

~~Our fees are based on the amount of time required at various levels of responsibility, plus actual-out of pocket expenses (travel, typing, telephone, etc.). We estimate that our total fees for this audit will be \$XX,XXX. We will notify you immediately of any circumstances we encounter~~

~~which could significantly affect our estimate. These fees are dependent upon our receiving XXX hours of assistance from the Internal Audit Department.~~

~~This fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.~~

~~We appreciate the opportunity to be of service to the District, and we believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.~~

**RESPONSE:**

~~This letter correctly sets forth the understanding of the Anywhere Independent School District.~~

By: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

## ~~Appendix 3 - GASB Statement No. 14~~

~~GASB STATEMENT NO. 14 - THE FINANCIAL REPORTING ENTITY  
GASB STATEMENT NO. 39 - DETERMINING WHETHER CERTAIN  
ORGANIZATIONS ARE COMPONENT UNITS  
(This Appendix has not been updated for GASB Statement No. 61)~~

### ~~EVALUATION OF POTENTIAL COMPONENT UNITS~~

Potential Component Unit:

~~1. Is the potential component unit legally separate from the primary government?~~

~~(GASB Statement No. 14 para 15)~~

~~Yes \_\_\_\_\_ No~~

~~An entity is a legally separate organization if it is created as a body corporate, or a body corporate and politic, or if it possesses the corporate powers that would distinguish it as being legally separate from the primary government. Those corporate powers would give it the capacity to have a name, the right to sue and be sued without recourse to a governmental unit, and the right to acquire property in its own name.~~

~~It may be necessary to review the documentation on legal standing of potential component units with the general counsel for the primary government.~~

~~If yes, go to question 3; if no, go to question 2.~~

~~2. Does the primary government hold the legal corporate powers of the potential component unit?~~

~~(GASB Statement No. 14 para 15)~~

~~Yes \_\_\_\_\_ No~~

~~If the potential component unit was determined not to be a separate legal entity in question 1 above, then either the primary government or some other entity must hold the corporate powers over the potential component unit.~~

~~If the primary government holds the legal corporate powers of the potential component unit, then it will be included in the financial reporting entity as part of the primary government.~~

~~If some entity other than the primary government holds the legal corporate powers of the potential component unit, then it will not be included in the primary government's financial reporting entity.~~

~~3. Does the primary government appoint a voting majority of the potential component unit's board?~~

~~(GASB Statement No. 14 para 22-24)~~

~~Yes \_\_\_\_\_ No~~

~~If the primary government appoints a simple majority of the potential component unit's governing board, it usually has a voting majority. However, if financial decisions require a super majority, then the primary government is not accountable for the organization.~~

~~For the purpose of determining the appointment responsibility, the primary government's appointment authority should be substantive, i.e., appointed by the primary government from any number of candidates of the primary government's choice, with or without confirmation by the legislature.~~

~~If, however, statute or ordinance requires the board to be selected by the primary government from a slate of candidates supplied from individuals or groups other than the primary government's officials or appointees, then the primary government's appointment authority is not considered to be substantive.~~

~~If the primary government appoints a voting majority of the potential component unit, go to question 6; if not go to question 4.~~

~~4. Is the potential component unit fiscally dependent on the primary government?~~

~~(GASB Statement No. 14 para 21b)~~

~~Yes \_\_\_\_\_ No~~

~~A potential component unit may be included in the reporting entity if it is fiscally dependent on the primary government, regardless of whether the potential component unit's governing board is appointed by the primary government.~~

~~A potential component unit is not fiscally dependent on the primary government if it has the ability to complete essential fiscal events without substantive approval by the primary government. A potential component unit is fiscally independent of the primary government if it has the authority to do all three of the following:~~

- ~~1. Determine its budget without another government having the authority to approve and modify that budget.~~

~~2. Levy taxes or set rates or charges for services without the approval of another government.~~

~~3. Issue bonds or other debt without approval by another government.~~

~~Fiscal dependency does not require that the potential component unit receive financial assistance from the primary government. The fiscal dependency concept discussed above is not based on the existence of either a financial burden on or benefit for the primary government.~~

~~If the potential component unit is fiscally dependent on the primary government, go to question 9; if not fiscally dependent, go to question 5.~~

~~5. Does the organization's relationship with the primary government meet the criteria of ¶40a, which indicates that certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government?~~

~~(GASB Statement No. 14 para 40a)~~

~~Yes \_\_\_\_\_ No~~

~~A legally separate, tax exempt organization should be reported as a component unit of a reporting entity only if **all** of the following criteria are met:~~

- ~~1. The economic resources of the separate organization are almost entirely for the benefit of the primary government~~
- ~~2. The primary government is entitled to, or has the ability to access a majority of the economic resources of the separate organization.~~
- ~~3. The economic resources of the individual organization are significant to the primary government.~~

~~Most organizations involved with Texas school districts will fail the 2<sup>nd</sup>- or 3<sup>rd</sup>- criteria. If the organization's relationship with the primary government meets the criteria of ¶40a, see item 11 for the method of inclusion; if no, go to question 6.~~

~~6. Would it be misleading to exclude the potential component unit because of its relationship with the primary government?~~

~~(GASB Statement No. 14 para 39-41)~~

~~Yes \_\_\_\_\_ No~~

~~In addition to the entities for which the primary government is financially accountable as evaluated in other sections of the checklist, the primary government's financial reporting entity should include entities that, if excluded, would result in presentations of misleading or incomplete financial statements. These entities are considered component units based on the nature and significance of their relationship with the primary government, even though the primary government is not financially accountable for them.~~

~~GASB Statement No. 39 does not provide guidance as to what constitutes relationships that would lead to inclusion. It does, however, provide three examples relevant to school districts:~~

~~Example 4. ——— Booster Club~~

~~Example 8. ——— School District Parent Teacher Organization (PTO)~~

~~Example 9. ——— Music Instruction Program~~

~~If it is determined that it would be misleading to exclude the potential component unit because of its relationship with the primary government, go to question 10; if not, then it will not be included in the primary government's financial reporting entity. Refer to ¶69–78 of GASB Statement 14 for any joint venture reporting requirements.~~

~~7. Is the primary government able to impose its will on the potential component unit?~~

~~(GASB Statement No 14. para 25–26)~~

~~Yes ————— No~~

~~In order for the primary government to be accountable for another entity, it must be capable of affecting the day-to-day operations of the other entity as well as having the authority of appointing a voting majority of its board.~~

~~The concept to be evaluated is referred to by GASB as imposition of will, which is defined as the ability to significantly influence the programs, projects, activities or level of services performed or provided by the potential component unit.~~

~~While the determination of the concept of imposition of will is a matter of judgment, GASB concluded that the existence of any of the following is a clear indication of the primary government's ability to affect the day-to-day operations of the potential component unit:~~

~~Appointed members can be removed at will by the primary government.—~~

~~The budget can be modified or approved by the primary government.~~

~~Rate or fee charges that affect the revenues can be modified or approved by the primary government.~~

~~Other decisions may be vetoed, overruled or modified by the primary government.~~

~~Management personnel may be appointed, hired, reassigned or dismissed by the primary government.~~

~~If the primary government is able to impose its will on the potential component unit, go to question 9; if not, go to question 8.~~

~~8. Is there a financial benefit/burden relationship between the primary government and the potential component unit?~~

~~(GASB Statement No. 14 para 27-33)~~

~~Yes \_\_\_\_\_ No \_\_\_\_\_~~

~~The primary government is financially accountable for another entity when it appoints a voting majority of the entity's governing board and the relationship creates the possibility that the other entity provides specific financial benefits to or specific financial burdens on the primary government.~~

~~GASB Statement No. 14 states that a financial benefit or burden is created if any of the following relationships exist:~~

~~The primary government has access to the other entity's resources. The ability to use the resources only needs to exist. The actual use of those resources is not required. An interest in the remaining assets of an entity when liquidated is not considered to provide the primary government with access to the other entity's resources.~~

~~The primary government is legally required or has assumed the responsibilities to finance the other entity's deficits or financially support the other entity. The primary government accepts an obligation for the debt of another entity. The following conditions would obligate the primary government for the debt of another entity:~~

~~\_\_\_\_\_ The primary government is legally responsible for debt that is not paid after other default remedies have been pursued.~~

~~\_\_\_\_\_ The primary government is required to provide funds to cover temporary deficiencies.~~

~~\_\_\_\_\_ The primary government is either required to fund reserves maintained by the other entity or to create its own reserve fund.~~

~~\_\_\_\_\_ The primary government is authorized to either fund reserves maintained by the other entity or to create its own reserve fund and has established such a fund.~~

~~\_\_\_\_\_ The primary government is authorized to either provide financing for a reserve fund maintained by the other entity for the purpose of repurchasing outstanding debt or to create its own reserve fund and has established such a fund~~

~~\_\_\_\_\_ The debt contract states that the primary government may cover defaults (even though it is not required to do so).~~

~~\_\_\_\_\_ Legal precedents related to actual or potential defaults make it probable that the primary government will be responsible for the other entity's defaulted debt.~~

~~If the primary government is financially accountable for another entity when it appoints a voting majority of the entity's governing board and there are relationships that create specific financial benefits to or specific financial burdens on the primary government, go to question 9; if no, go to item 13 for the method of inclusion.~~

~~9. Is the governing board of the component unit substantively the same as the governing board of the primary government?~~

~~(GASB Statement No. 14 para 53a)~~

~~Yes \_\_\_\_\_ No~~

~~GASB 14 indicates that these criteria will rarely, if ever, apply to a state government because of the impracticality of providing sufficient representation of the state's entire governing body.~~

~~If the governing board of the component unit is not substantively the same as that of the primary government go to question 10; if yes, go to item 11 for method of inclusion.~~

~~10. Does the component unit provide services entirely or almost entirely to the primary government?~~

~~(GASB Statement No. 14 para 53b)~~

~~Yes \_\_\_\_\_ No~~

~~The essence of this type of arrangement is similar to an internal service fund where the goods or services are provided to the government itself.~~

~~If the component unit provides services entirely or almost entirely to the primary government, go to item 11 for method of inclusion; if no, go to item 12 for method of inclusion.~~

## Methods of Inclusion

~~11. Blending (See GASB Statement No. 14 para 52-54)~~

~~12. Discrete presentation (See GASB Statement No. 14 para 44-51)~~

~~13. Note disclosure (See GASB Statement No. 14 para 68)~~

~~See GASB Statement No. 39 for amendments to GASB Statement No. 14.~~

## Appendix 4 - Sample Attorney's Letter

### Sample Attorney's Letter

(School District Letterhead)

August 31, 20XX

(Address of Attorney)

Dear Sirs:

In connection with an audit of our financial statements at August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date) and for the year then ended, please furnish to our independent auditors, (name of audit firm), a list that describes and evaluates pending or threatened litigation, claims, and assessments with respect to which you have been engaged and to which you have devoted substantive attention on behalf of the District in the form of legal consultation or representation for matters over \$XX,XXX. Your response should include matters that existed at August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date) as well as any new matters during the period from that date to the specified effective date of your response, which should not be before \_\_\_\_\_ and should be sent so as to be received by (name and address of audit firm), no later than.

#### Pending or Threatened Litigation (excluding unasserted claims)

Please furnish to (name of audit firm) details relating to all matters of pending or threatened litigation you are handling on our behalf which meet the standard of materiality stated above, including (1) a description of the nature of each matter, (2) the progress of each matter to date, (3) how the District has responded or intends to respond (for example to contest the case vigorously or to seek an out-of-court settlement), and (4) an evaluation of the likelihood of an unfavorable outcome and an estimate, if one can be made, of the amount or range of potential loss.

#### Unasserted Claims or Assessments:

We have represented to (name of audit firm) that there are no unasserted possible claims that you have advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Accounting Standards No. 5.

Please specifically confirm to (name of audit firm) that our understanding is correct.

~~Please specifically identify the nature of, and the reasons for, any limitation on your response.~~

~~In addition, please furnish (name of audit firm) the amount of any unpaid charges at August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date).~~

Sincerely,

(Client Signature)

## **Appendix 5 - Sample Confirmations**

- 5-1            Cash Confirmation**
- 5-2            Bond Confirmation**
- 5-3            Pledged Securities Confirmation**
- 5-4            Collateral Confirmation**
- 5-5            Investment Safekeeping Confirmation**
- 5-6            Successor-in-Interest Confirmation**
- 5-7            TEA Confirmation**
- 5-8            Lease Pool Purchase Obligation Confirmation**
- 5-9            Nepotism Representation**

## ~~Appendix 5-1 - Sample Cash Confirmation~~

~~(School District Letterhead)~~

~~August 31, 20XX-~~

~~(Bank Address)-~~

Dear \_\_\_\_\_:

~~Our auditors, (name and address of audit firm), are currently conducting an audit of our financial statements and desire to confirm the following information for the year ended August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date).~~

- ~~1. The largest cash, savings and time deposit combined account balance during this fiscal year amounted to \$ \_\_\_\_\_ on the following date  
\_\_\_\_\_.~~
- ~~2. The amount of bond or other security pledged (market value) as of the above date of the highest combined balance on deposit was \$ \_\_\_\_\_.~~
- ~~3. The total amount of FDIC coverage at the time of the largest combined balance was \$ \_\_\_\_\_.~~
- ~~4. The amount of bond or other security pledged (market value) as of August 31, 20XX, (June 30, 20XX depending upon a school's fiscal year start date) was \$ \_\_\_\_\_.~~
- ~~5. The total amount of FDIC coverage as of August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date), was \$ \_\_\_\_\_.~~

~~Please complete the above with the necessary information and send it directly to our auditors. An addressed envelope is enclosed for your convenience.~~

Sincerely,

~~(Client Signature)~~

## ~~Appendix 5-2 - Sample Bond Confirmation~~

~~(School District Letterhead)~~

~~August 31, 20XX~~

~~(Bank Address)~~

Dear \_\_\_\_\_:

~~In connection with an audit of our financial statement by our auditors (name and address of audit firm), please confirm to them the following information regarding all bonds of Anywhere Independent School District as of the close of business on August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date).~~

~~1. Name of Issue~~

~~2. Type of bonds (General Obligation, Revenue, Refunding, etc.)~~

~~3. Number~~

~~4. Date of issue~~

~~5. Maturity date~~

~~6. Annual interest rate~~

~~7. Principal amount of original issue~~

~~8. Principal amount retired during the fiscal year ended August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date)~~

~~9. Principal amount refunded during the fiscal year ended August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date)~~

~~10. Principal amount outstanding on August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date)~~

~~11. Interest payment dates~~

~~12. Cash held for payment of unrepresented bonds~~

~~13. As to whether sinking fund, retirement and all other provisions of indenture have been complied with~~

~~Please return this letter to (name of audit firm) in the enclosed envelope.~~

~~Sincerely,~~

~~(Client Signature)~~

## **Appendix 5-3 - Sample Pledged Securities Confirmation**

(School District Letterhead)

August 31, 20XX

(Bank Address)

Dear \_\_\_\_\_:

Our auditors, (name and address of audit firm), are currently conducting an audit of our financial statements. They request that you confirm that securities of the kind described in section 45.201 of the *Texas School Law Bulletin* in an amount equal to the demand deposits and time deposits of the district on deposit with (name of bank), were pledged by (name of bank) to the district. Furthermore, verify that the value of the securities pledged were at no time during the period from September 1, 20XX, through August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date), less than the total amount of district funds on deposit in (name of bank).

Please complete the attached portion of this letter and return it to our auditors. An addressed envelope is enclosed for your convenience.

Sincerely,

(Client Signature)

~~Sample Pledged Securities Confirmation (continued)~~

~~(School District Letterhead)~~

~~(Audit Firm Name and Address)~~

Gentlemen:

Deposits at (Name of bank) are insured by the FDIC. (Name of bank) had securities in the amount of \$\_\_\_\_\_ described above as of August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date). Enclosed is a listing of such pledged securities as of August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date), which includes the description, current market value and maturity date by each depository account being collateralized. The pledged securities were held by \_\_\_\_\_ (Institution & Department) agent of \_\_\_\_\_ (Institution & Department) in the name of \_\_\_\_\_ (Institution & Department).

Exceptions, if any were as follows:

---

(Date) \_\_\_\_\_ (Signature & Title)

## **Appendix 5-4 - Sample Collateral Confirmation**

(School District Letterhead)

August 31, 20XX

(Bank Address)

Dear \_\_\_\_\_:

In conjunction with our annual audit, please furnish directly to our auditors, (name and address of audit firm), information relating to our investments held as of August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date). Please include a description, the current market value and maturity date for securities pledged as collateral to the Anywhere Independent School District for their investments as of August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date):

For the information requested above, please include the following details:

a. Description

b. Purchase Date

c. Rate of Interest

d. Maturity Date

e. Balance of Investments

f. Market Value of Investments

g. The name (and pledged status) in which the investment is held.

- ~~h. Note if the investment is held in the Federal Reserve book entry system. If so, indicate in whose federal account the investment is held and the account's relationship to the Bank. (i.e. separate trust department account, bank operating account, etc.)~~
  
- ~~i. Location and custody of investment, custody and market value of collateral, if applicable~~
  
- ~~j. A list of any additional claims or conditions involving these investments.~~

~~Your reply, mailed directly to our auditors, is appreciated. Enclosed is a stamped, addressed envelope for your convenience.~~

Sincerely,

(Client Signature)

## **Appendix 5-5 - Sample Investment Safekeeping Confirmation**

(School District Letterhead)

August 31, 20XX

(Bank Address)

Attention: Safekeeping

Dear Sirs:

Our auditors, (name and address of audit firm), are currently conducting an audit of our financial statements. In connection with this examination they have requested that you confirm you were holding the attached list of securities in safekeeping on August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date).

Please sign where indicated and note any discrepancies from your records in the space provided below.

Sincerely,

(Client Signature)

	Par	Purchase	Maturity	Cusip	Safekeeping
<u>Description</u>	<u>Value</u>	<u>Date</u>	<u>Date</u>	<u>Number</u>	<u>Account #</u>

Differences Noted:

---

Signature

Date

~~**Appendix 5-6 - Sample Successor-in-Interest to the Former County Education District Confirmation**~~

~~**The Successor-in-Interest has been transitioned to each school district at this time and is no longer relevant**~~

## ~~Appendix 5-7 - Sample TEA Confirmation~~

~~TEA payments to school districts and charter schools are available through the following link using one of the specified identification numbers for the entity.~~

~~[TEA Payment Report](#)~~

## ~~Appendix 5-8 - Sample Lease Pool Purchase Obligation Confirmation~~

~~(School District Letterhead)~~

~~August 31, 20XX~~

~~(Bank Address)~~

~~Dear \_\_\_\_\_:~~

~~In connection with our annual audit, please furnish directly to our auditors, (address of audit firm), the following information regarding the Texas Association of School Boards (TASB) Lease Pool Purchase Obligation:~~

- ~~1. The principal amount outstanding at August 31, 20XX (June 30, 20XX depending upon a school's fiscal year end date).~~
- ~~2. The rate of interest.~~
- ~~3. Interest and principal repayment dates.~~

~~Your reply, mailed directly to our auditors, is appreciated. Enclosed is a stamped, addressed envelope for your convenience.~~

~~Sincerely,~~

~~(Client Signature)~~

## ~~Appendix 5-9 - Sample Nepotism Representation~~

~~(School District Letterhead)~~

~~August 31, 20XX~~

~~(Name and Address of Audit Firm)~~

Gentlemen:

~~In connection with your audit of the balance sheet of Anywhere Independent School District (the "District") as of August 31, 20XX (June 30, 20XX depending upon a school's fiscal year start date) and related Statements of Revenues, Expenditures, and Changes in Fund Balances for the year then ended for the purposes of expressing an opinion as to whether the District is in compliance with certain constitutional provisions, statutory laws, public policies, Title 19 of the [Texas Administrative Code](#), and the Texas Education Agency regulations, I confirm, to the best of my knowledge and belief, the following representation made to you during your examination.~~

- ~~1. As detailed in Appendix A, no person who is related to me within the third degree by consanguinity or within the second degree by affinity has been employed by the District during my tenure as a board member, except as follows:~~
- ~~2. Neither I, nor any business entity in which I have a direct financial interest, other than publicly held stock, have received compensation from or done business with the District, except as follows:~~

~~Member of the Board of Trustees, Anywhere Independent School District~~

Signature \_\_\_\_\_ Date \_\_\_\_\_

## APPENDIX A

### Consanguinity Relationships by Blood

<b>First Degree</b>	<b>Second Degree</b>	<b>Third Degree</b>
Father	Grandfather	Great-Grandfather
Mother	Grandmother	Great-Grandmother
Daughter	Granddaughter	Great-Granddaughter
Son	Grandson	Great-Grandson
	Sister	Aunt
	Brother	Uncle
		Nephew
		Niece

### Affinity Relations by Marriages

<b>First Degree</b>	<b>Second Degree</b>
Father-in-law	Spouse's Grandfather
Mother-in-law	Spouse's Grandmother
Daughter-in-law	Spouse's Granddaughter
Son-in-law	Spouse's Grandson
Officer's spouse	Spouse's Sister (Sister-in-law)
	Spouse's Brother (Brother-in-law)
	Sister's Spouse (Brother-in-law)
	Brother's Spouse (Sister-in-law)

# List of Acronyms

~~AAG—SLV—AICPA’s *Audit and Accounting Guide—State and Local Governments*~~

~~ADA—Average daily attendance~~

~~AICPA—American Institute of Certified Public Accountants—~~

~~ARRA—American Recovery Reinvestment Act~~

~~ASB—AICPA’s Auditing Standards Board~~

~~ASBO—The Association of School Business Officials—~~

~~ASC—Accounting Standards Codification~~

~~AU—U.S. Auditing Standards, AICPA Professional Standards, Volume 1—~~

~~CAFR—Comprehensive Annual Financial Report~~

~~CART—Committee Appointed Review Team—~~

~~CFDA—*Catalogue of Federal Domestic Assistance*~~

~~[Compliance Supplement](#)—*Compliance Supplement for Single Audits of States, Local Governments, and Non Profit Organizations*~~

~~CPA—Certified public accountant—~~

~~EDP—Electronic data processing~~

~~ESEA—Elementary and Secondary Education Act—~~

~~FASB—Financial Accounting Standards Board—~~

~~FDIC—Federal Deposit Insurance Corporation—~~

~~FFA—Federal financial assistance~~

~~FFC—Finding for further consideration—~~

~~FSP—Foundation School Program~~

~~GAAP—Generally accepted accounting principles—~~

~~GAAS—Generally accepted auditing standards~~

~~GAGAS—Generally accepted government auditing standards~~

~~GAO—United States Government Accountability Office—~~

~~GAS—Government Auditing Standards~~

~~GASB—Governmental Accounting Standards Board—~~

~~GFOA—Government Finance Officers Association—~~

~~GPFS—General purpose financial statements~~

~~GOCOs—Federal Government owned, contractor operated facilities—~~

~~IBNR—Incurred but not reported~~

~~IDEA—Individuals with Disabilities Education Act—~~

~~JJAEP—Juvenile justice alternative education programs—~~

~~MD&A—Management’s discussion and analysis~~

~~MFC—Matter for further consideration~~

~~NCGA—National Council on Government Accounting—~~

~~NSLP—National School Lunch Program~~

~~OMB—United States Office of Management and Budget—~~

~~OPEB—Other post-employment benefits~~

~~PEIMS—Public Education Information Management System~~

~~PCAOB—Public Company Accounting Oversight Board~~

~~PIC—Program Intent Code~~

~~RFP—Request for proposal~~

~~RFQ—Request for qualifications RSI—Required Supplementary Information~~

~~SAS—AICPA *Statements on Auditing Standards*~~

~~SFAS—*Statement on Financial Accounting Standards*~~

~~SI—Supplementary Information~~

~~Supplementary Schedule—*Supplementary Schedule of Federal Financial Assistance*~~

~~TAC—Texas Administrative Code~~

~~TASB—Texas Association of School Boards~~

~~TEA—Texas Education Agency~~

~~TEC—Texas Education Code~~

~~TRS—Teachers Retirement System of Texas~~

~~UGMS—The Uniform Grant Management Standards~~

~~USDA—United States Department of Agriculture~~

~~Yellow Book—*Government Auditing Standards*~~

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